



TCG is led by Chairman & CEO Robert Annunziata, who founded both TCG and the competitive access industry in 1983. Annunziata, with 29 years of telecom industry experience, has adeptly capitalized on the opportunities in the competitive local market and was instrumental in growing TCG from a mere concept into a company with operations in 55 markets and a market capitalization of nearly \$3 billion. Annunziata is supported by a cohesive team of professionals from many different segments of industry. Annunziata's second in command is TCG's CFO, John Scarpati, who joined TCG in 1984. Scarpati has 25 years of industry experience and was involved with TCG since its inception, starting with the due diligence of the TCG investment during his days at Merrill Lynch. Bob Atkinson is TCG's Senior Vice-President of Legal, Regulatory & External Affairs and has played a key role in breaking open the legal and regulatory barriers to competitive local service since joining TCG in 1985. Atkinson was a founding member and the first president of the CLEC industry trade association, ALTs, and brings 24 years of regulatory experience to TCG. Joel Gross, who joined TCG in 1993, brings a combination of 8 years at AT&T and 9 years as a telecommunications industry analyst on Wall Street to his duties as TCG's Senior Vice President of Corporate Development. He continues to play a key role in TCG's expansion into and capitalization on new and existing market opportunities as the company grows its operations both vertically and horizontally. The fact that TCG's management comes from many different segments of industry has fostered a unique culture which has a singularly entrepreneurial focus.

TCG's Ownership Structure. In addition to the 15.4% that has been sold to the public, Teleport is primarily owned by four cable television MSOs: Comcast Corporation owns 16.4%, Continental Cablevision (soon to be US West Media Group) owns 11.5%, Cox Communications owns 25.0%, and Tele-Communications, Inc. owns 31.7%. We expect that US West Media Group will ultimately have to sell its entire stake in TCG upon closure of the Continental acquisition, which potentially leaves the door open for another strategic investor to come into the picture. As we mentioned earlier, TCG was at one point slated to be contributed to the wireline portion of the Sprint Telecommunications Venture. The original structure of the STV called for Sprint to end up with a 40% stake in TCG, Tele-Communications, Inc. with 30%, and Comcast and Cox each taking 15% stakes after buying out Continental's 20%. However, the disintegration of the wireline portion of STV opened the door for TCG to become an independent entity. With the successful IPO of 15% of the company and the concurrent offering of \$1.4 billion in debt, TCG finds itself in an advantageous position in terms of financial flexibility and the ability to seek sources of revenue beyond the four venture partners.

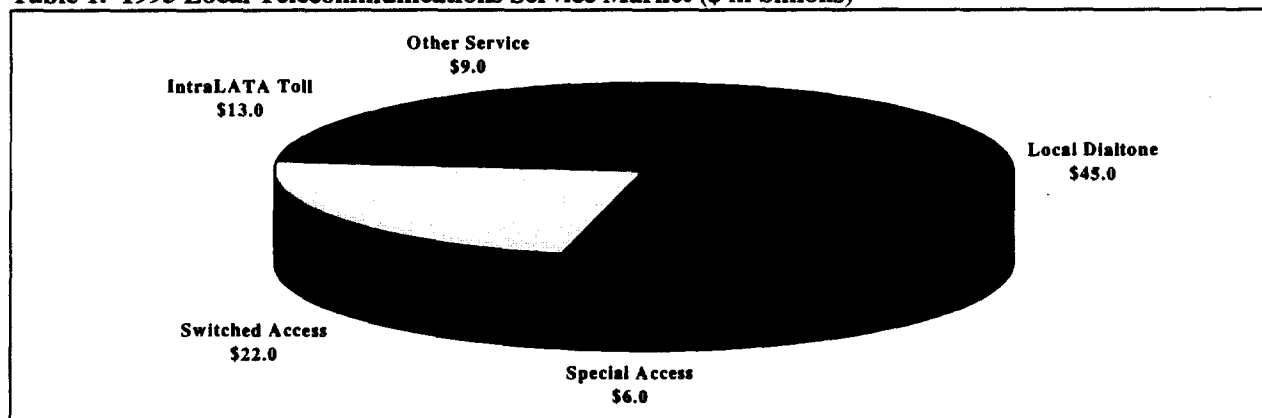
TCG's Strategy. TCG's goal is truly to be the other local phone company, with a full-service offering of local services. TCG is strictly a competitive local telephone company with no long distance ambitions. In a market where one-stop shopping (i.e., local, long distance, data, etc.) is the watchword, TCG goes somewhat against the grain with a single-minded focus on competitive local service. That is not to say that TCG is not a believer in one-stop shopping and integrated services: it simply would rather operate as a component of another carrier's integrated product offering. We support TCG's focus, as we believe that the company will be able to gain significant revenue on a carrier's carrier basis from the large long distance carriers. TCG does not want to provide long distance, since it could end up competing with its best customers. The company implements its local service offerings with a focus on facilities-based communications solutions. To that end, TCG has deployed more fiber in the local loop and has connected more buildings to its network than any other CLEC in the market today. To execute its strategy, TCG initially deploys private line and special access services to businesses and carriers as it builds its backbone network and connects buildings. With its backbone completed, TCG can leverage its network assets and existing customer base by deploying switches in order to provide all facets of local telephone service that the regulatory environment in its various markets allows, while concentrating its capital budget on connecting customers' buildings to its network. This strategy has allowed TCG to become "*the other local telephone company*" in many of its markets, and we believe that the company's business plan will enable it to attain significant penetration of its addressable market over the next decade.

TCG's Market Opportunity Is Tremendous. We estimate that the local telecommunications service market was \$95 billion in 1995, with 60%, or \$57 billion, generated by business customers and 40%, or \$38 billion, generated by residential customers. Looking ahead, we project strong sustainable unit volume and revenue growth in the local telecommunications market driven by increasing nationwide demand for communications,



data, and interactive multimedia applications and services. Local revenue is being enhanced by strong access line growth, stemming from the increased penetration of residential telephone second lines, and the proliferation of data communications, including faxes, on-line services, Internet access and advanced data services for businesses. Further proliferation of data and multimedia applications is expected to spur the demand for higher bandwidth pipes such as ISDN lines and T-1 circuits, which TCG is particularly well suited to provide. In the context of a fundamentally strong local market, we believe that the implementation of comprehensive state or federal legislation has ignited a major change within the competitive local service industry. Where once TCG had its progress dictated by step-by-step legislative advances, the company is essentially free to pursue opportunities in all segments of the market and to become a market-driven entity rather than regulation-driven entity. We believe that the combination of a fundamentally strong market environment and regulatory freedom will grow TCG's addressable market opportunity to approximately \$55 billion by the year 2005.

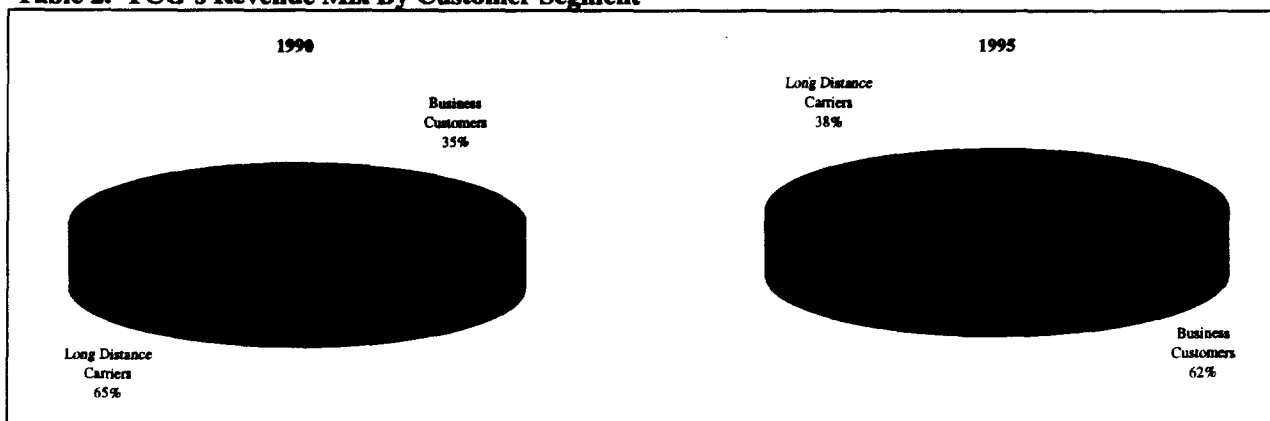
Table 1. 1995 Local Telecommunications Service Market (\$ in billions)



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

We Expect Significant Penetration By TCG. Given the tremendous opportunity addressable by TCG, we expect that the company will be able to attain significant penetration of its addressable market over a ten-year time horizon. We estimate that TCG has penetrated only 0.75% of its \$25 billion market opportunity today, with 58% of its revenue coming from its flagship New York market, implying penetration of less than 5% of its addressable market. We are targeting year 2005 revenue of \$3.6 billion, implying penetration of 6.5% of TCG's \$55 billion market opportunity in aggregate, with approximately 10% penetration of the New York business and multi-dwelling unit (MDU) residential market. A detailed analysis of TCG's local market opportunity and the anticipated level of total market penetration can be found in the Appendix on pages 35 through 38.

Table 2. TCG's Revenue Mix By Customer Segment



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.



IV. TCG'S GROWTH DRIVERS

What Will Generate TCG's Future Growth? Having established that TCG is among the best positioned companies to capitalize on the tremendous opportunity in competitive local telephony, the question becomes, "How will TCG grow its revenue?" The answer to the question is multifaceted and includes both vertical and horizontal opportunities for growth. First, TCG's addressable market is expanding significantly as a result of federal telecommunications legislation, which took significant steps to remove the legal and structural barriers to competition. Second, TCG will be able to expand its menu of services beyond its core access and private line services to include switched local services, data services, and other offerings in all its markets. Third, TCG can grow its revenue by expanding geographically into new markets and further expanding its footprint in existing markets. Fourth, the company will be able to target new customer segments to expand beyond its core base of first-tier business customers and telecommunications carriers. Fifth, TCG will significantly expand its selling channels by expanding its internal sales force, leveraging external sales agents, and expanding its base of carrier customers. We believe the net impact of TCG's five-pronged strategy for growth will enable the company to grow revenue at a compound annual growth rate of at least 35% over a ten-year time horizon. A detailed description of the factors which we expect to drive TCG's growth is included in the paragraphs below.

Elimination Of Legal Barriers To Competition. The single largest catalyst for TCG's growth was clearly the passage and implementation of the Telecommunications Act of 1996. The passage of the bill effectively expanded the CLEC industry's competitive local market opportunity from less than \$40 billion at year-end 1995 to include the entire \$95 billion local telecommunications market. Prior to the passage of legislation and the FCC ruling on implementation, issues well beyond the legality of competition stood in the way of whether or not the local market was addressable. In the words of TCG's regulatory expert, Bob Atkinson, four questions must be answered affirmatively in order to establish true local competition: First, is competition operationally and technologically feasible? Second, is competition legal? Third, is competition economically viable? Fourth, is the risk inherent in entering the local market worth the reward? Until the passage of legislation, the answers to many of these questions were in doubt, with the exception of a few progressive states. However, with the passage and implementation of legislation, the ability and incentive for carriers to compete in the local market has drastically improved from the environment that existed for the past 100 years.

New Service Offerings To Customers. We believe TCG's revenue growth will be positively impacted by the rollout of new services in all its markets, including switched local dialtone services, intraLATA toll services, video conferencing, Internet access, etc., provided over TCG's broadband network. TCG is certified as a competitive LEC in only 12 of the 26 states in which it operates and is still in the relatively early stages of rolling out a broad offering of switched local services. TCG provides switched services in only about 50% of its markets, and only on a limited basis. Given that the majority of local telecommunications revenue is comprised of switched services, the opportunity for TCG's growth is clear. In addition to expanding its switched local service offerings, TCG is aggressively pursuing the data opportunity. The company has established a network of 33 ATM switches capable of providing data services like frame relay, Ethernet, video conferencing, etc. Although TCG will not be a direct supplier of Internet services, it will capitalize on the boom in demand for Internet and data-related capacity by providing broadband access to Internet service providers (ISPs) and end users in business. TCG's relationship with BizTel also provides the opportunity for new service offerings to customers in terms of connections to end users, aerial route diversity for fiber-based connections, and cell site interconnection for cellular-PCS carriers that need to quickly build ubiquitous nationwide wireless networks.

Substantial Switched Services Opportunity. Given its substantial penetration of the dedicated access and private-line markets, the switched local service market represents a tremendous growth opportunity for TCG. In order to capitalize on this opportunity, the company has deployed 21 class five central office switches in key markets across the country. This switch platform enables TCG to switch its own traffic rather than being dependent on the incumbent LEC for switching. It is important to note that in addition to standard local dialtone services, these switches, in tandem with ancillary hardware/software, enable the provision of a broad variety of enhanced services, like enhanced Centrex services, caller ID, call waiting, call forwarding, voice messaging, etc. These enhanced services, which typically are software intensive and characterized by high operating leverage,



clearly give TCG the opportunity to realize significant profit margins leveraging an ILEC's unbundled loop, even if it is not providing the service over its own fiber facilities.

Data Services Are The Next Leg Of Growth. We expect that data services will be a significant growth driver in TCG's future. In the business market, we expect data traffic to be the largest growth element for the next several years as the proliferation of stand-alone PCs gives way to the LAN/WAN network architecture and a broad variety of data applications, like enterprise networks, the Internet, and video conferencing, which will be enabled by transmission technologies like frame relay and ATM. Data traffic growth in the residential community will be driven by the tremendous influx of on-line services, Internet, and multimedia applications, which are expected to grow at a rate in the high double digits through the next decade. The local and long distance carriers have seen their percentage of data traffic increase at substantial rates over the past few years. Companies like MCI have seen data traffic grow from 6% to over 10% of revenue in just two years, and it is quite feasible that data traffic volume will ultimately exceed voice traffic in terms of absolute volume. In this context, TCG is well-positioned with a backbone network capable of supporting a high volume of traffic with reliability and capacity well in excess of that offered by the ILECs. The data segment clearly represents one of the fastest growing opportunities in local telecommunications and one in which we believe TCG and the other CLECs are likely to receive a disproportionately large share of the growth.

Geographic Expansion Of Market Footprint. TCG has fiber optic networks operational or under development in a total of 55 markets today and plans to expand into a total of 85 markets, encompassing 105 metropolitan statistical areas (MSAs) over the next 5 years. The fact that TCG generates roughly 50% of its revenue from its New York City network alone illustrates that significant penetration and large corresponding revenue growth are possible. As we mentioned earlier, we expect this expansion to be facilitated by TCG's strong relationships with its cable stockholders, which have large footprints in many markets beyond those in which TCG operates today. Pages 20 and 21 of this report illustrate where Comcast, Cox, TCI and US West Media Group have cable clusters with subscribers in excess of 100,000. As evidenced by these maps, TCG has operations in only 34 of the 69 clusters of cable partners. Even if US West Media Group is forced to sell its stake in TCG and does not contribute any incremental properties to TCG, the company's growth opportunities are substantial. In the context of TCG's growth opportunities, it is worth noting that TCG's entry into smaller markets versus those which it previously targeted provides the company a hedge against its larger markets in the event that its large carrier customers decide to build limited networks. Although we do not expect that TCG will find itself in a head-to-head contest with the large IXCs in many markets, it gives us a significant level of comfort to know that TCG's expanded strategy shields it from any risk that may be inherent in focusing only on first-tier markets.

Additional Penetration Of Existing Markets. Again, the fact that TCG generates roughly 50% of its revenue from its New York City network alone illustrates that significant penetration and large corresponding revenue growth are possible even in more competitive markets. That said, the fact that New York has been operational for 12 years (4 years longer than TCG's second oldest market) combined with the fact that New York is one of the largest and most densely populated regions in the country makes it difficult to apply this example to TCG's other properties. However, it definitely illustrates the potential that TCG has to make inroads into its other markets over the next decade. Given that TCG has operations in many markets which are also quite large and densely populated (e.g., Los Angeles, Chicago, etc.) and which were started later in the company's development, we expect that TCG will ultimately be able to generate significant revenue from the balance of its markets. It is also important to note that TCG got as far as it did in an extremely hostile regulatory environment and one in which customer recognition of a competitive choice was very limited. With a significantly improved regulatory environment and a customer base that has grown to recognize the need for high quality, competitively priced service, we expect that the next ten years will be significantly easier for TCG than the past ten years.

Targeting New Customer Segments. Beyond its core customer base of financial institutions and other large business customers, TCG is targeting additional segments of the first-tier business markets, including health care facilities/hospitals, human resource organizations, call centers, etc. TCG will maintain its historic focus on large business customers (i.e., customers with more than 300 lines) while simultaneously moving down the food chain



to the small to medium-size business market (i.e., down to businesses with as few as 6 lines). TCG has rolled out this "general business" strategy on a trial basis in New York City today and expects several more cities to come on line during the course of the year. TCG will target the general business markets in all its cities by year-end 1997. This strategy substantially expands TCG's market opportunity from the \$23 billion first-tier business market to include the \$34 billion small to medium-size business market. As part of its general business customer focus, TCG may target the smaller offshoots of the brokerage and money management institutions that are scattered across the country. For instance, brokerage houses like Merrill Lynch or Smith Barney and mutual funds like Fidelity have retail offices in hundreds of communities across the nation. These satellite offices have significant communications needs for voice, data and video services and are ideal candidates for the services TCG provides over its fiber optic network or potentially through BizTel's broadband 38 GHz links. Beyond the business market, TCG will have access to residential revenue via its cable partners' telephony plans, by providing access to shared tenant service providers, and on a limited basis through its own branded residential service offering. TCG may also target residential customers in markets like New York City with a TCG-branded offering, in which its residential plans would not directly conflict with those of its cable shareholders.

Expansion Of Sales Channels. TCG has a substantial opportunity to expand its sales channels on both the retail and wholesale fronts in order to stimulate sales across all customer segments on a nationwide basis. On the retail front, TCG has a sales organization of approximately 500 people today which it plans to expand significantly over the next 12 months. In addition to the internal growth of its sales force, TCG will supplement its efforts by pursuing external sales channels. TCG can also tap the vast sales channels of much larger companies as it can leverage its network by leasing network capacity to other carriers on a wholesale basis. From this perspective, TCG's potential carrier customers include a broad array of companies ranging from IXCs to ISPs and even incumbent LECs. It is worth noting that AT&T alone has committed to taking 33% of the local market in 5-10 years. If AT&T distributes its traffic among the CLECs in any given market, TCG could significantly benefit from AT&T's entry into the local market. Beyond the long distance carriers, the Telecommunications Act of 1996 will eventually unleash eight more carriers (i.e., the RBOCs and GTE) that will be significant generators of traffic in out-of-region local markets. To put the carrier's carrier opportunity in perspective, consider the opportunity involved in TCG's wholesale agreement with the U.S. subsidiary of Cable & Wireless PLC. With 46 sales offices nationwide and a base of more than 100,000 business customers averaging between \$1,000 and \$2,500 in monthly telecommunications bills, C&W expects to significantly penetrate its existing and new customer base with a bundled offering of local and long distance services. Clearly, TCG could generate substantial revenue from this agreement if the company attains even modest local service penetration of its existing long distance customer base. This opportunity is amplified in terms of potential deals with the large IXCs, which have nationwide plans for local service expansion.

Elimination Of Capital Constraints. One crucial element in assessing any CLEC's growth prospects is its access to capital in order to fund its business plan. While some on the Street are fond of pointing out that TCG's growth has substantially lagged that of MFS Communications, it is worth noting that TCG's access to capital and corresponding capital budget has been significantly lower than that of MFS during the past five years. In fact, TCG faced two capital crunches in its history that effectively created a slowdown in growth. The first occurred in 1991, when Merrill Lynch was shopping TCG to Cox Communications and did not necessarily want to contribute capital to an asset it was about to sell. The second slowdown occurred when TCG's cable stockholders were considering contributing a piece of TCG into the now-defunct wireline portion of the Sprint Telecommunications Venture. Beyond that, it is important to note that TCG has historically been funded by its four cable partners, which were not necessarily willing to fund TCG as freely as the public was willing to fund MFS. Rather than dramatically ramp up revenue growth and the corresponding operating losses in a pre-legislative economic environment, TCG concentrated on rapidly deploying the network infrastructure that would ultimately be necessary to compete in the local market. All of that said, the fact is that TCG has clearly demonstrated its ability to tap the public markets with a very successful IPO and concurrent high-yield offering in one of the roughest market environments of the year. The company now has \$1.1 billion in cash, which we expect to positively impact revenue growth going forward.



V. TCG'S NETWORK

If You Build It, They Will Come. One TCG's greatest strengths is the fact that the company has deployed more than \$1 billion of network plant in the ground, enabling the company to provide service in regions with more than 66% of the nation's population and more than 75% of the nation's telecommunications revenue. While other CLECs historically took the path of significantly ramping up revenue and the corresponding operating losses in a negative-margin regulatory and legislative environment, TCG has concentrated on deploying its capital conservatively in order to establish the robust broadband fiber network that is critically important for competing in the local loop, with the rational expectation that legislation would ultimately improve the economics of competitive local service. Moreover, as TCG owns and operates its networks, it is largely the master of its own destiny. We believe that it is an undesirable model for a CLEC to be largely dependent on leased facilities of the ILEC to connect its customers. In that situation, a CLEC is largely dependent on its principal competitor for customer service, provisioning, etc. Controlling its own network gives TCG complete control over price, quality, supply, service, and repair.

TCG's Fiber Network Deployment Is Unmatched. TCG has operational fiber optic networks in 48 markets today and has an additional 7 under construction, for a total of 55 markets. In its markets, TCG serves a total of 6,037 buildings and 3.4 million voice grade equivalent circuits (VGEs) with 5,770 route miles of fiber and 286,009 strand miles of fiber. TCG's fiber optic network is the largest of all the CLECs and has physical connections to more buildings than any other competitive provider in the market today. It is worth noting that in addition to being in more U.S. markets than any other CLEC today, TCG also has more fiber in each market than any other CLEC. TCG has an average of 100 route miles of fiber in each market versus an average of 34 route miles per market for the other publicly traded CLECs. We believe that a robust and broadly interconnected network is a critically important asset for any CLEC and will provide TCG with a tremendous opportunity to realize operating leverage as it grows its traffic volumes on its largely fixed cost network. The scale of TCG's network and the extent of each city's footprint also enable TCG to provide services which other CLECs may not. For instance, TCG's broad reach enables it to provide intraLATA toll services, which represent a \$13 billion revenue stream with 65% EBITDA margins but may not be as addressable to CLECs with smaller scale networks. Going forward, we expect TCG to significantly expand its network footprint into new markets and to expand the scale and scope of its existing networks. On the new market front, the company is in the process of expanding into second- and third-tier markets in order to establish a footprint in a total of 85 markets, including 105 MSAs. We expect TCG's expansion to be facilitated by its relationships with its cable shareholders, which have significant network footprints in markets TCG has not yet entered.

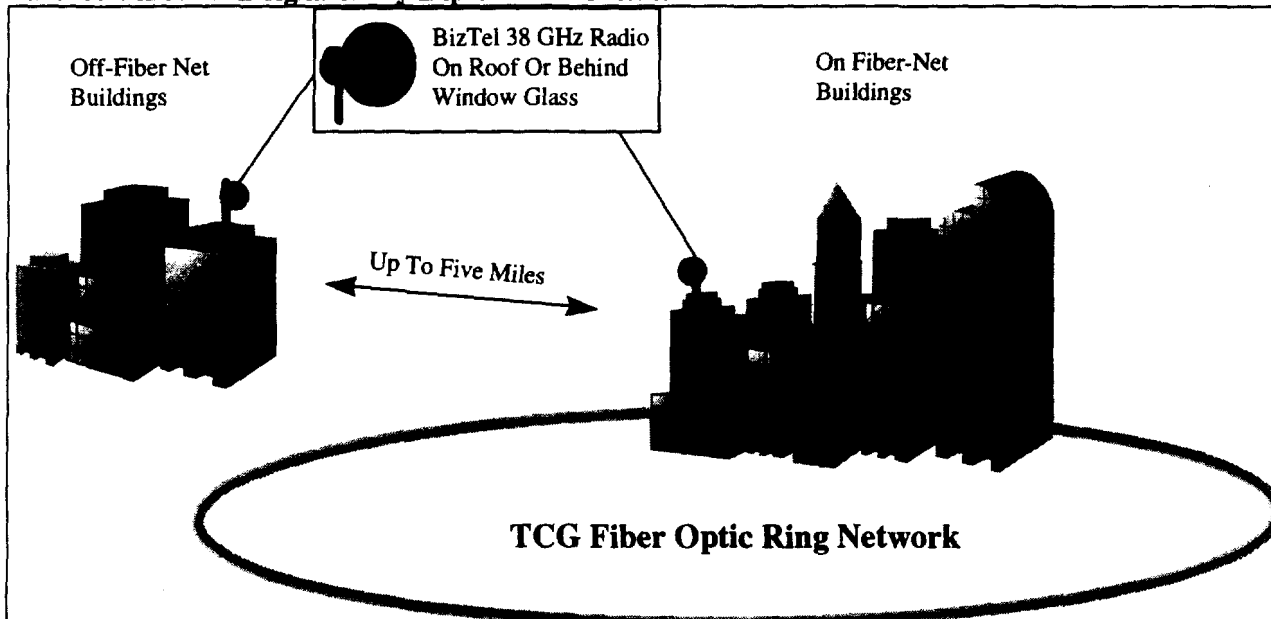
The BizTel 38 GHz Solution. An attractive and underestimated complement to TCG's fiber network can be found in the 38 GHz spectrum, with TCG's 49.9% stake in BizTel Communications. The 38 GHz frequency is not particularly useful for long-haul applications, since signals only have a range of five miles without repeaters, but 38 GHz is ideal for short-haul local loop bypass applications because of the low signal dispersion and the high capacity for frequency reuse within any given area. BizTel provides its services with point-to-point 38 GHz radio links that enable the company to offer its customers a significant amount of bandwidth in a reliable, timely and economically viable manner. The use of 38 GHz milliwave technology has the ability to speed TCG's time to market, since installation of a link can be accomplished in days rather than weeks or months. BizTel's 38 GHz links offer reliability of 99.999% and a bit error rate of 10^{-13} , which is significantly better than that of the copper-based networks of the incumbent LECs and equivalent to that of the fiber-optic networks. In terms of capacity, a pair of 38 GHz radios can currently provide eight T-1 links at speeds of 1.5 Mbps (each equal to approximately 24 phone lines) and DS-3 radios with a bandwidth of 45 Mbps are now being delivered, which will greatly enhance the capacity that BizTel can offer its customers.

Advantages Of 38 GHz. In response to investors' questions about 38 GHz links versus standard microwave links and wireline options, we thought it worth discussing the many advantages of 38 GHz. FCC regulation of standard lower-frequency microwave is cumbersome, creates delays in link setup, and inhibits freedom to adjust signal strength in order to compensate for rain attenuation. 38 GHz license holders, on the other hand, are able to set up as many links as physically possible within their allowed bandwidth and geographical license area. As a



result of these positive factors, 38 GHz links are ideal short-term or long-term alternatives to fiber-optic or copper connections. 38 GHz links have capacity, reliability and operational characteristics comparable to those of fiber-optic networks and can be set up in a short amount of time at a fraction of the cost. The economics of a 38 GHz link are also quite compelling. For example, the cost of an eight T-1 capable radio pair, which can generate as much as \$24,000 in revenue annually, is only about \$12,000. Even in a base case scenario of an average fill of two T-1s per radio, the cash flow potential in this business is quite strong, and we estimate that each link can achieve positive EBITDA by its second year of operation.

Table 3. BizTel Can Significantly Expand TCG's Reach



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

38 GHz Network Architecture. As illustrated in Table 3, BizTel's 38 GHz licenses can be used to significantly expand the network footprint of TCG beyond its fiber-based loops. The use of BizTel's wireless links can allow TCG to connect buildings that are not directly located on its fiber network by setting up a link between the off-fiber net building and an on-fiber net building. Alternatively, a wireless point-of-presence could be set up along the fiber network in order to allow interconnection. The 38 GHz solution enables TCG to avoid or postpone the arduous process of obtaining building permission and spending approximately \$200,000 per mile to lay fiber outside the core metropolitan area. In some cities where TCG has no fiber footprint, TCG will also be able to establish purely wireless networks using the BizTel 38 GHz spectrum for connections to end users, in addition to connections from wireless hubs to the central switching office. The basketball-sized 38 GHz radios, which are not drawn to scale in Table 3, are relatively inconspicuous and can be set up on rooftops or even behind glass in the end user's office. Beyond the opportunity to connect end users, BizTel can also provide wireless bypass services to cellular and PCS operators that need to connect their cell sites. We strongly believe that BizTel's 38 GHz offers a viable facilities-based alternative that will play a role in accelerating Teleport's expansion into the local market.

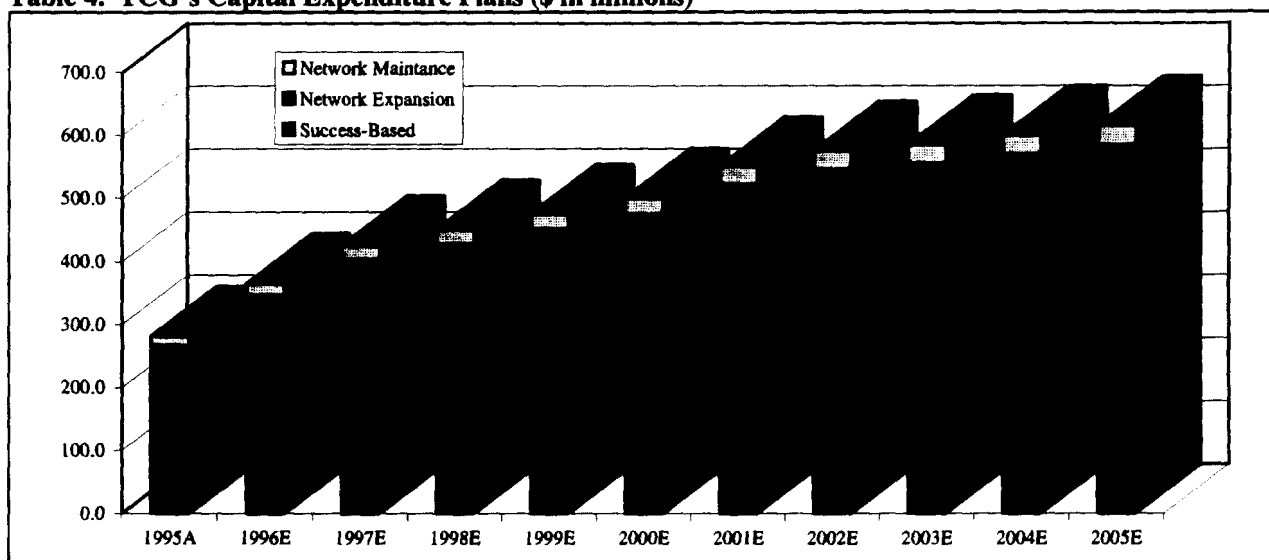
TCG's Integrated Fiber-Wireless-Leased Network. The combination of robust fiber facilities and virtually ubiquitous 38 GHz wireless coverage in the local loop establishes TCG as a premier provider of competitive local services. That said, we expect that TCG will continue to expand its network footprint and customer connections by any means possible. This means that the company will leverage its own fiber facilities, BizTel's 38 GHz links, and unbundled loops from the ILEC, depending on which is most appropriate to a customer's needs. In a market environment where the single largest barrier to entry and profitability is the last mile between the central switching office and the customer's premises, TCG appears ideally situated with a unique portfolio of assets that allow it multiple channels for end user connectivity.



Fixed Network Creates Extraordinary Leverage. Having established that TCG has the largest and highest quality CLEC network in the U.S., it is clearly worth pointing out the opportunities that the company has to leverage this asset. First, it is important to note that the initial cost of constructing TCG's networks was completely justified by the pursuit of the \$6 billion special access and private line market alone. The expansion into the switched services market, which accounts for the balance of the \$95 billion market, is pure gravy on top of an already lucrative business case. The company's digital broadband network is an unmatched asset which can be leveraged to provide a broad variety of voice, data and video services to customers across the nation. As new services are layered onto TCG's existing fixed-cost networks, they provide a high degree of operating leverage by improving cost per transaction, because the fixed network costs are spread out over a broader base of revenue. With the opportunity to provide services to a broad variety of providers, including satellite companies, video broadcasters, Internet service providers (ISPs), cellular-PCS operators, microwave-milliwave network operators, cable television operators, shared tenant service providers, and a broad array of end users, TCG clearly has the ability to realize significant leverage on its core network asset.

Network Expansion Driven By Large Capex Budget. In order to further capitalize on the competitive local service opportunity, we expect TCG to grow its network footprint from 55 markets today to a total of more than 85 markets by the year 2000. To that end, TCG will enter approximately 7 to 10 markets a year for the next five years. The company has already announced 7 new cities this year, and we expect additional cities to be added each year until the company has fiber networks reaching approximately 85 markets, including 105 MSAs, and a 38 GHz footprint in 150 MSAs. In order to grow its footprint, we expect the company to spend \$400 million to \$500 million a year over the next 10 years. Although initial capital expenditures in any given market will be heavily weighted towards the construction of the backbone network (i.e., typically 85% of capital dollars are spent on backbone construction in the first two years), the capital expenditures are heavily weighted toward success-based expenditures in the out years. This model for city expansion essentially reduces the TCG's risk of stranded or under-utilized plant because the majority of its capital is spent only after receiving a customer order.

Table 4. TCG's Capital Expenditure Plans (\$ in millions)



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

Expansion Facilitated By Cable Relationships. It is clearly worth noting that TCG's future expansion is likely to be facilitated by relationships with its cable shareholders, as it has in the past. TCG can opportunistically capitalize on the cable operators' network upgrade plans by partnering in a network build when the cable partners are laying fiber to upgrade their own systems. TCG and the cable MSO share rights-of-way and fiber deployment cost, therefore reducing operating expenses and the depreciation and amortization associated with capitalized



network deployment expenses. To illustrate the efficiency with which TCG has deployed its network, consider the fact that TCG has invested only \$180,500 per route mile compared to MFS Communications, which has invested nearly \$450,000 per route mile. TCG has operations in 55 markets today, 34 of which overlap with the footprint of one or more of its cable stockholders. Beyond the existing overlap, TCG's cable partners have large clusters in an additional 35 markets. This implies that TCG could achieve its 85-city target by leveraging its cable relationships in order to build networks in these markets in the same timely and cost-efficient manner that it has constructed the rest of its network. For a detailed map of this opportunity, refer to our cable cluster maps on pages 20 and 21. In addition to their cable clusters, which present the opportunity for synergistic fiber builds with TCG, some of the cable MSOs have interests in CLECs which may ultimately be acquired by or contributed to TCG. The network footprint of the CLEC affiliates of TCG's cable stockholders can be found on page 14.

On-Net Traffic Improves Margins. TCG's capital deployment plans are geared with the design of keeping traffic primarily on its own network facilities versus those of the ILECs. TCG will continue to lease lines from the ILECs in order to establish its initial customer connection in a timely manner. However, these off-net circuits, also known as type-II circuits, are typically a revolving pool: TCG will initially connect a customer with a leased line and then follow through with its own fiber. TCG's reliance on the ILEC is also mitigated by the fact that TCG has the option to leverage the broadband wireless capabilities of BizTel. Much of TCG's operating expenses are related to interconnection with the ILECs. By building its network deep into each market it serves, TCG is able to interconnect more often at the ILEC's end office rather than the tandem switch. This robust interconnection of central offices should significantly improve operating expenses. Although we do expect that unbundled loops will provide a significant opportunity for margins, TCG's strategy is to attain optimum margins while providing higher quality service by leveraging its own facilities where ever possible.

Apples-To-Apples Comparisons Among CLECs Required. When comparing TCG's network footprint and operational statistics to its peers, it is worth noting that there are significant differences in definitional terms between the first-tier CLECs and the second-tier CLECs. First, TCG defines markets as metropolitan statistical areas (MSAs), versus some of the CLECs which define markets as areas with populations in excess of 100,000. It is also important to note that TCG operates on a significantly larger scale than some of its second-tier peers. For instance, TCG generates more revenue from the World Trade Center in New York than ACSI generates from all its networks combined. In terms of scale and scope of networks, TCG has an average of 100 route miles in each city market compared to an average of 34 for the other CLECs. For the sake of clarity on other definitional terms, "on-net buildings" refers to those buildings that are physically connected to a CLEC network, while "off-net buildings" (also known as Type II buildings) are connected through a line leased from the incumbent ILEC. When route miles are addressed, they refer to the number of geographic miles covered by a CLEC's network as they would appear on a network map. Fiber miles represent the length of the actual fiber strands contained within the network (i.e., route miles times the number of strands of fiber). Voice grade equivalent circuits (VGEs) are a rough CLEC equivalent of ILEC access lines

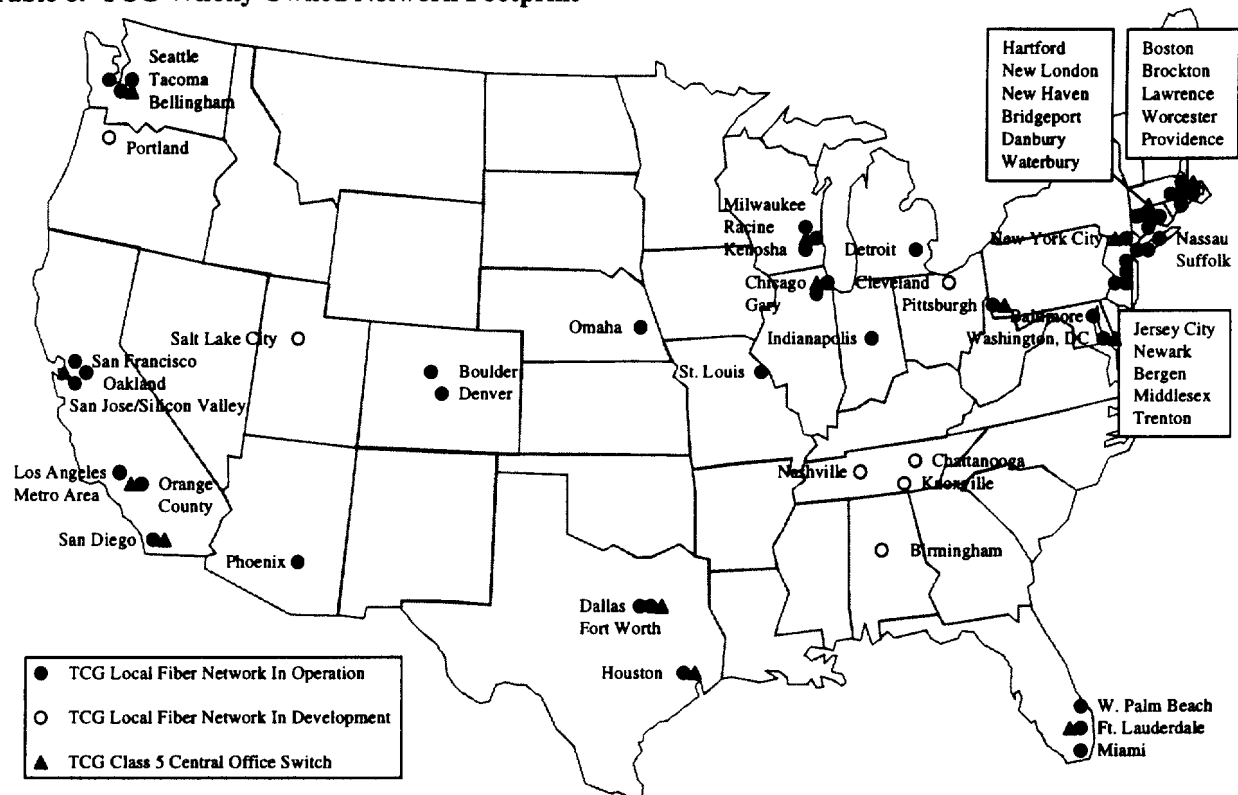
Table 5. CLEC Operating Statistics

	ACNS	BFPT	GST	ICG	ICIX	MFST	TCGI
Markets In Operation	15	18	15	37	9	49	48
Markets Under Construction	8	8	10	22	1	3	7
Total Markets	23	26	25	59	10	52	55
On Net Buildings	216	569	162	384	414	2,400	2,524
Off Net Buildings	0	75	1	1,493	3,521	6,200	3,513
Route Miles	386	705	654	886	571	3,573	5,770
Fiber Miles	28,476	43,152	16,586	36,310	21,232	227,032	286,009
VGEs (In Millions)	0.14	0.24	0.20	0.52	0.19	3.92	3.36
Class 5 Switches Installed	0	9	2	13	3	19	21
Employees	181	571	353	1,038	453	3,650	1,697

Source: Company Reports/Deutsche Morgan Grenfell/C. J. Lawrence Inc. Note: Statistics for BFPT, ICG, ICIX, MFST and TCGI are dated June 30, 1996. Statistics for ACNS and GST are dated March 31, 1996.



Table 6. TCG Wholly Owned Network Footprint



TCG's wholly owned networks cover a total of 55 metropolitan areas in 26 states with 5,770 route miles of fiber.

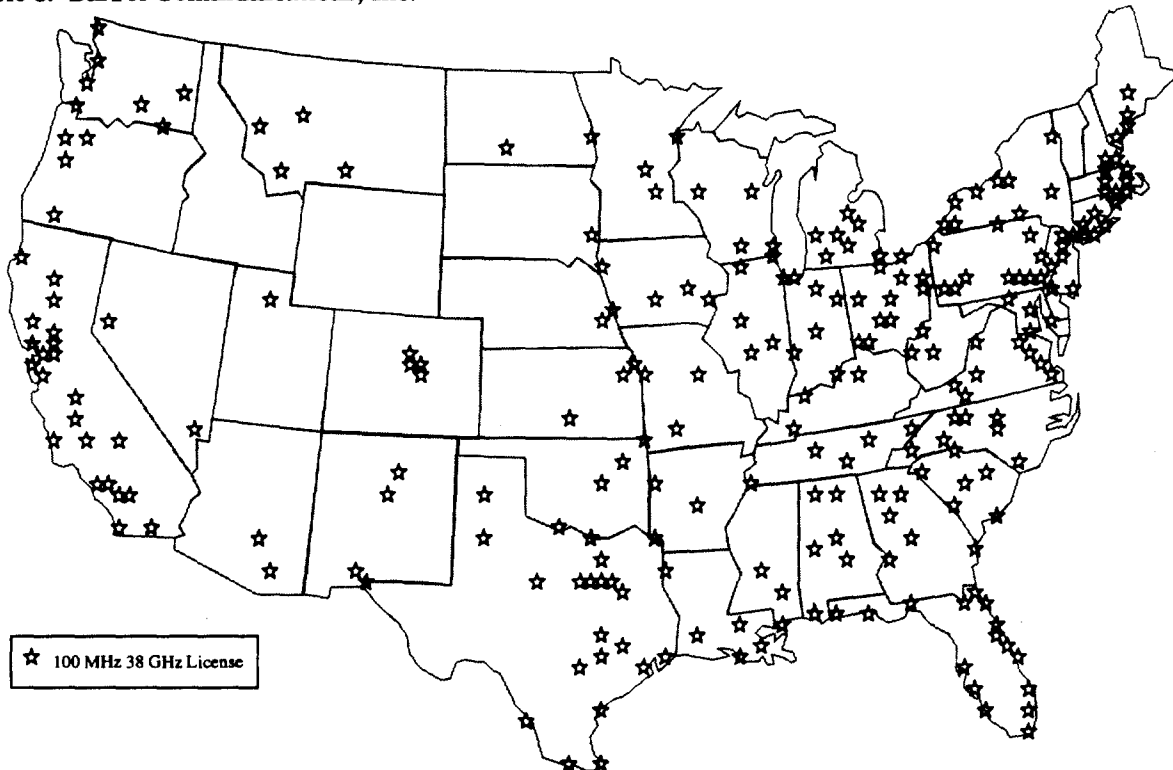
Table 7. CAP Networks Of TCG's Cable Partners



Through its cable MSO relationships, TCG may have access to fiber optic networks in an additional 23 markets.

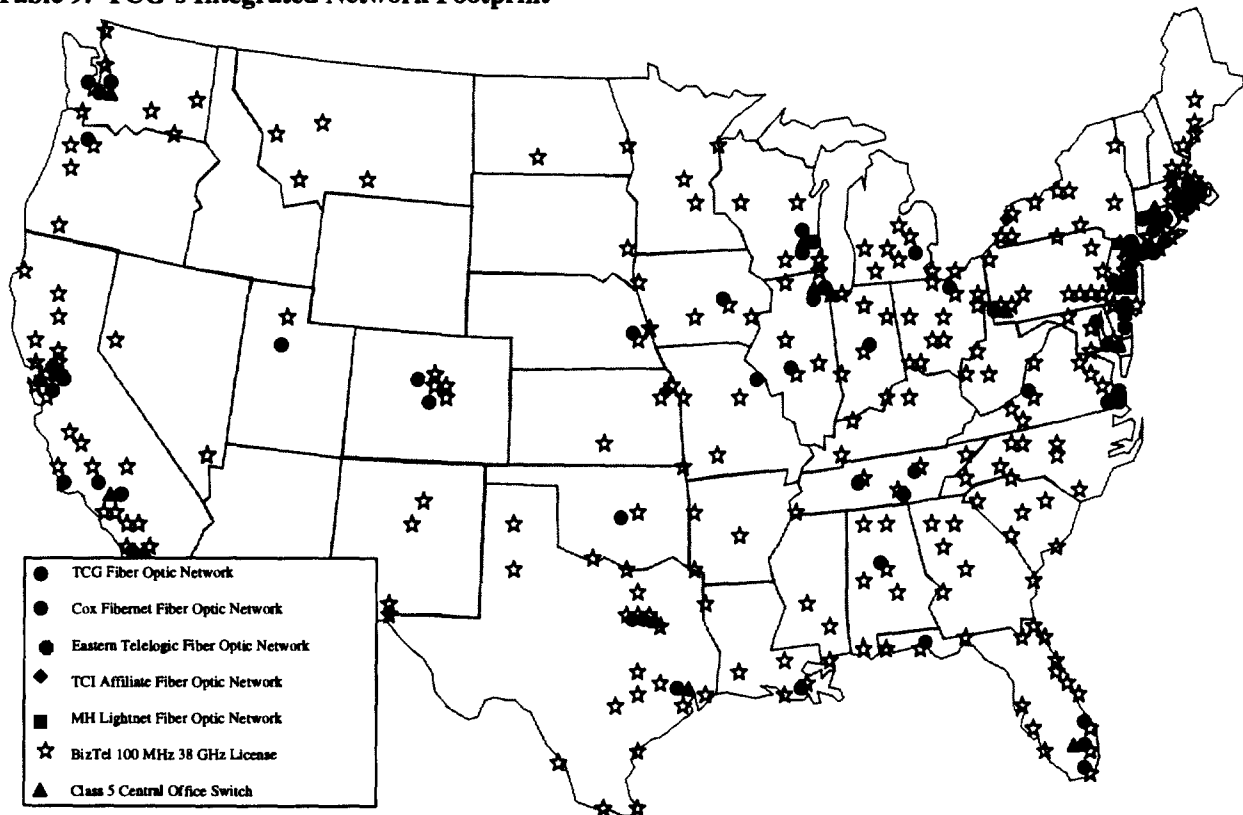


Table 8. BizTel Communications, Inc.



TCG's 49% stake in BizTel gives it access to 156 38 GHz licenses which can reach more than 175 million people.

Table 9. TCG's Integrated Network Footprint



Between its own networks, the cable CAP networks, and BizTel, TCG's footprint is unmatched by any CLEC.



VI. SIGNIFICANT STRATEGIC RELATIONSHIPS

TCG Possesses A Number Of Key Relationships. TCG has established a number of strategic relationships which we expect will play an instrumental role in the robust growth of its network footprint and revenue. TCG's most important strategic relationship is with four of the nation's five largest cable television (CATV) operators, which collectively pass 47% of the 94 million homes in the U.S. and own approximately 85% of TCG's common stock. The cable shareholders fostered TCG's growth with equity funding of \$770 million and joint participation in fiber builds and access to rights-of-way, which allowed TCG to enter markets quickly and efficiently. This relationship has enabled TCG to establish twice as many route miles per dollar of capital invested than MFS Communications. Cable relationships allow TCG to leverage the CATV MSOs' existing rights-of-way, enabling them to lay as much as 1 mile per day in any given market. TCG often participates in joint fiber builds with CATV companies that are upgrading their plant to fiber. This sharing of the buildout expense dramatically reduces TCG's construction costs. As a result of its ownership by TCI, Comcast, Cox and Continental Cablevision, TCG is essentially the vendor of choice for their telephony ventures and we expect TCG to play a key role in enabling the telephony plans of its cable shareholders. In fact TCG is already engaged in cable-telephony trials in several markets (see maps pages 20 and 21). Along those lines, we expect TCG to receive the bulk of the cell site interconnect and wireless back-haul business from the Sprint Spectrum venture. In addition to TCG's relationship with its cable shareholders, the company also has strategic and contractual relationships with a variety of other carriers ranging from long distance carriers to Internet service providers. TCG's relationships are described in further detail below.

Comcast Corporation. Comcast is the fourth largest cable television provider in the U.S., serving approximately 4.3 million subscribers in 18 states, and it has a 15% equity stake in the Sprint Spectrum wireless venture which has PCS licenses covering 191 million POPs. The company is exposed to competitive local telephony with equity interests in domestic wireless communications, telephone and cable television ventures in the UK, and three CLECs. In addition to its 16.4% stake in TCG, Comcast shares a 51% interest with TCG in the Philadelphia-based CLEC, Eastern Telelogic, and wholly owns MH Lightnet, which it acquired when Comcast acquired the U.S. properties of Canadian-based MacLean Hunter. Both Eastern Telelogic and MH Lightnet are full-service CLECs that provide an alternative source of voice, video and data access transmission services for businesses, government entities, and other carriers alike. Eastern Telelogic (ETC) has approximately 500 route miles in southern New Jersey, metropolitan Philadelphia, and Delaware, with a revenue run rate in excess of \$20 million and positive cash flow. ETC is in the process of ramping up switched services, which should significantly stimulate revenue growth going forward. TCG has the option to take a 75% stake in ETC as of October 1997. MH Lightnet has entered into an agreement with MFS Communications, so we discount the possibility of TCG having access to its network. Going forward, we expect that Comcast will remain a key strategic partner of TCG. Comcast has ten major cable clusters, and TCG has overlapping local service operations in only three. We expect that TCG will leverage Comcast's remaining local market assets and rights-of-way in order to enter the seven untapped markets as the opportunities arise. We also believe that TCG will exercise its option to take a majority stake in ETC, which will give it an unmatched presence in the greater Philadelphia metropolitan area, southern New Jersey, and Delaware.

Cox Cable Communications. Cox is the nation's fifth largest cable television operator, with more than 3.2 million subscribers in 21 cable systems that pass more than 4.9 million homes. In order to grow its core business, Cox has focused on developing large stand-alone cable clusters in urban and suburban areas in order to capitalize on the network's efficiencies and the economies of scale that can be gained. In addition to its cable business, Cox is involved in wireless communications through its 15% equity stake in Sprint Spectrum and 100% of a pioneer's preference PCS license it received in California. On the competitive local telephony front, Cox owns 25% of TCG and has a wholly-owned competitive access subsidiary called Cox Fibernet, which operates as an affiliate of TCG. TCG has the option to take a 35% equity stake in Cox Fibernet's networks in New Orleans, Oklahoma City, and Hampton Roads. Going forward, we expect that Cox will remain a key strategic partner of TCG. Cox has eight major cable clusters, and TCG has overlapping local service operations in only four. We expect that TCG will leverage Cox's remaining local market assets and rights-of-way in order to enter the four untapped markets as the opportunities arise. We believe that TCG will ultimately exercise its option to acquire



stakes in the aforementioned networks and would not be surprised if it was granted the option to acquire similar stakes in Cox's other CLEC operations.

Tele-Communications, Inc. TCI is the nation's largest cable television operator, serving nearly 17.7 million customers through its affiliates and wholly-owned cable properties. The company is underway with its multi-billion-dollar construction project to upgrade its 200,000-plus mile cable network to fiber-optic plant in order to bring fully interactive digital broadband communications services to its customers. TCI plans to provide local telephone service over its upgraded cable networks in competition with the incumbent LECs as technology and regulation evolve. In the interim, TCI has invested in the competitive local telephone opportunity by acquiring equity interests in several CLECs. In addition to its 31.7% stake in TCG, TCI has an equity stake with Time Warner in Kansas City Fibernet (KCF) and Hyperion's Buffalo network. Both KCF and Hyperion are full-service CLECs that provide their customers with an alternative to the local telephone company's access facilities for the transmission of voice, data, and video. In addition to its CLEC investments, TCI is a 30% owner of the Sprint Spectrum venture, which has PCS licenses covering 191 million POPs. Through its deployment of fiber and digital switching facilities and its Sprint Spectrum partnership, we expect TCI to be an active competitor in the local market. Going forward, we expect that TCI will remain a key strategic partner of TCG. TCI has 33 major cable clusters, and TCG has overlapping local service operations in only 21. We expect that TCG will leverage TCI's remaining local market assets and rights-of-way in order to enter the 12 untapped markets as the opportunity arises. Beyond the synergistic joint network development with TCG, we believe that TCI would be well served by contributing its stakes in Kansas City Fibernet and Buffalo Hyperion to TCG, as it did with Digital Direct in Pittsburgh two years ago. TCG has the experience and the resources necessary to bring out the potential of these network assets and significantly increase their value.

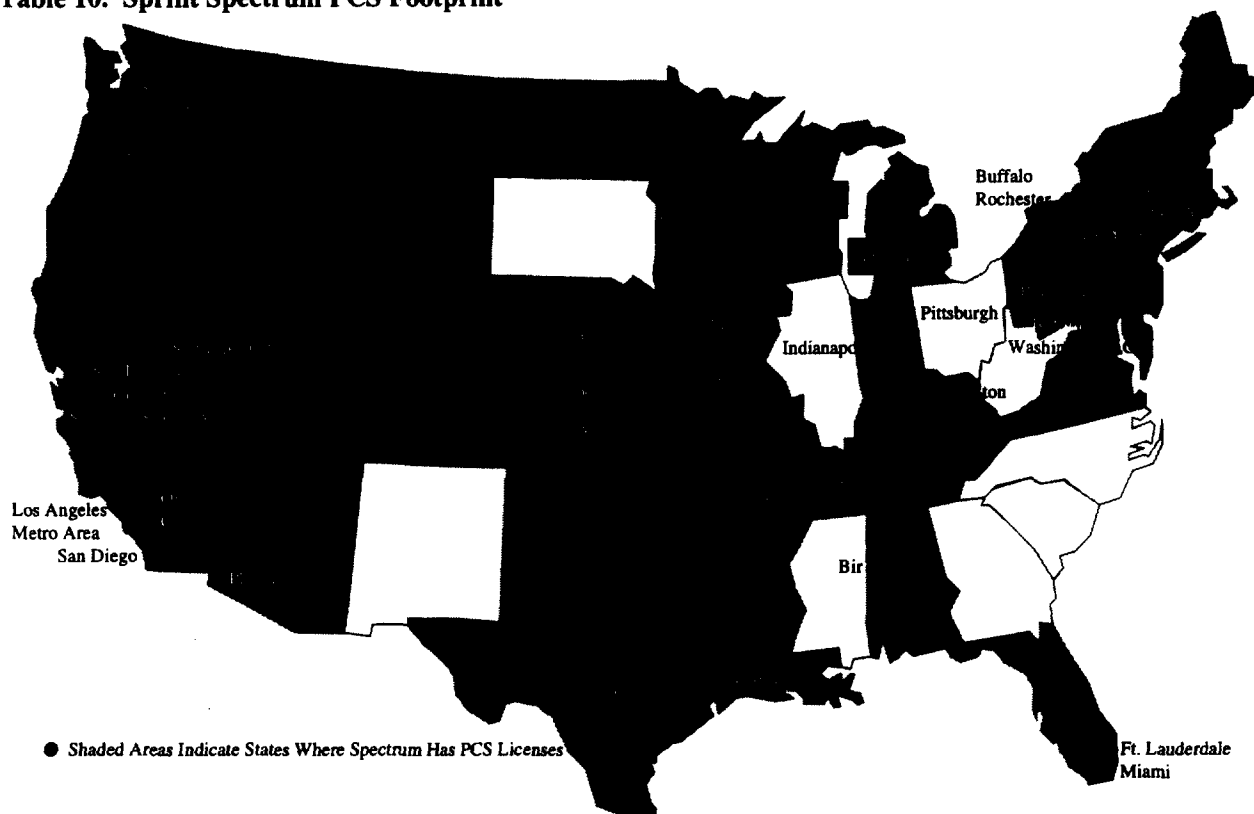
US West Media Group. With the eventual conclusion of the Continental Cablevision merger, US West Media Group will have one of the largest cable footprints in the world, with equity interests in cable systems that pass 26.2 million U.S. homes. US West has aggressively grown its cable business through its acquisition of a 25.5% stake in Time Warner Entertainment, its acquisition of Wotmeco and Georgia Cable Television, and its impending merger with Continental Cablevision. The company is exposed to competitive local telephony through its CLEC subsidiary, Southern Multimedia Communications in Atlanta, and through Continental Cablevision's 11.5% stake in Teleport. Going forward, the question remains whether UMG will be allowed to maintain its stake in TCG, given that TCG competes in some of US West's largest markets. Excluding its equity stake in the Time Warner properties, UMG has 18 major cable clusters, of which TCG has overlapping local service operations in only 6. In the event that TCG is able to leverage UMG's remaining local market assets and rights-of-way, this relationship would facilitate entry into 12 untapped markets. That said, we are not counting on UMG to be as cooperative as the other cable shareholders in the future, since the FCC's preliminary ruling indicates that UMG will have to sell its entire stake in TCG. That said, we still believe that it makes economic sense for UMG to allow TCG to leverage its rights-of-way in order to serve the business community in its markets. From a different perspective, we believe that if US West has had a positive experience with its CLEC in Atlanta, it may seek to duplicate its success elsewhere. In this case, UMG would want to maintain its cable assets for its own purposes. In the likely scenario that UMG has to sell its remaining 11.5% stake in TCG, the door would be open for a player of size to take a significant equity stake in the nation's largest and best positioned CLEC. If this scenario comes to pass, we would expect AT&T, MCI Metro and Sprint to be among the bidders, as each has a vested interest in developing further footholds in competitive markets. Alternatively, UMG's stake could be absorbed by the cable partners, which have right of first refusal, or sold to the public.

Sprint Spectrum PCS. Sprint Spectrum, the wireless venture of Comcast, Cox, Sprint and Tele-Communications Inc., is the largest holder of broadband PCS licenses in the United States, with a license footprint covering nearly 191 million potential subscribers (POPs) in 33 major trading areas (MTAs), including 8 of the top 10 MTAs. The Spectrum venture intends to have wireless networks able to serve 70% of its POPs by year-end 1997, and will clearly need outside support to connect its PCS microcells and to provide back-haul and switching for its wireless traffic. We believe that TCG is uniquely qualified to fill this role with a network footprint of fiber and 38 GHz licenses which perfectly shadow that of Sprint Spectrum's license footprint. We would expect, given the



close relationship that TCG has with the Sprint Spectrum partners, that TCG has a good chance of receiving the cell site interconnection and back-haul business from the venture. To put in perspective how significant this revenue opportunity could be, a wireless service provider like AirTouch pays out approximately 3% of its revenue for cell site interconnection and wireless back-haul. In addition to TCG's potential service offerings to the Spectrum venture, we recognize that TCG could ultimately leverage Spectrum's mobile wireless offering in order to provide mobile wireless communications to its business customers on a resale basis. This offering could add significant value to its competitive local service offerings while further differentiating the company from its peers in the competitive local arena.

Table 10. Sprint Spectrum PCS Footprint



With its fiber networks and 38 GHz licenses, TCG can serve all of Sprint Spectrum's interconnection needs.

Contractual Relationships With IXC's. TCG has strong business relationships with all of the major long distance carriers (IXCs) including AT&T, MCI, Sprint, WorldCom, LCI, Frontier, and Cable & Wireless PLC. TCG has master service agreements with the top eight IXCs, including AT&T, MCI and Sprint. TCG has a nationwide preferred vendor relationship with AT&T as a supplier of dedicated and switched access services, and we expect TCG to expand this agreement to include the provision of switched local dialtone services. In fact, the company is doing local dialtone trials today with AT&T. IXCs have historically been valuable customers of TCG, frequently acting as anchor tenants for the company by granting it incentives to build a network in order to carry traffic and allowing TCG to leverage this network to provide service to other customers. A good example of this scenario can be found in Long Island, where TCG built a network to connect Sprint's undersea cable facilities, which land on the tip of Long Island, to the New York metropolitan area. This contract provided TCG with a lucrative stream of revenue and the opportunity to leverage this plant to serve other customers across Long Island. An interesting model for future relationships and service offerings to the IXCs can be found in TCG's relationship with the U.S. subsidiary of Cable & Wireless PLC. In this case, Cable & Wireless is leasing local lines and switching capacity from TCG in order to provide customers with its UniLink offering of bundled local and long distance services. In assessing the significance of strategic relationships with the large long distance carriers, it is worth considering that AT&T alone has committed to taking 33% of the local market within 5 to 10



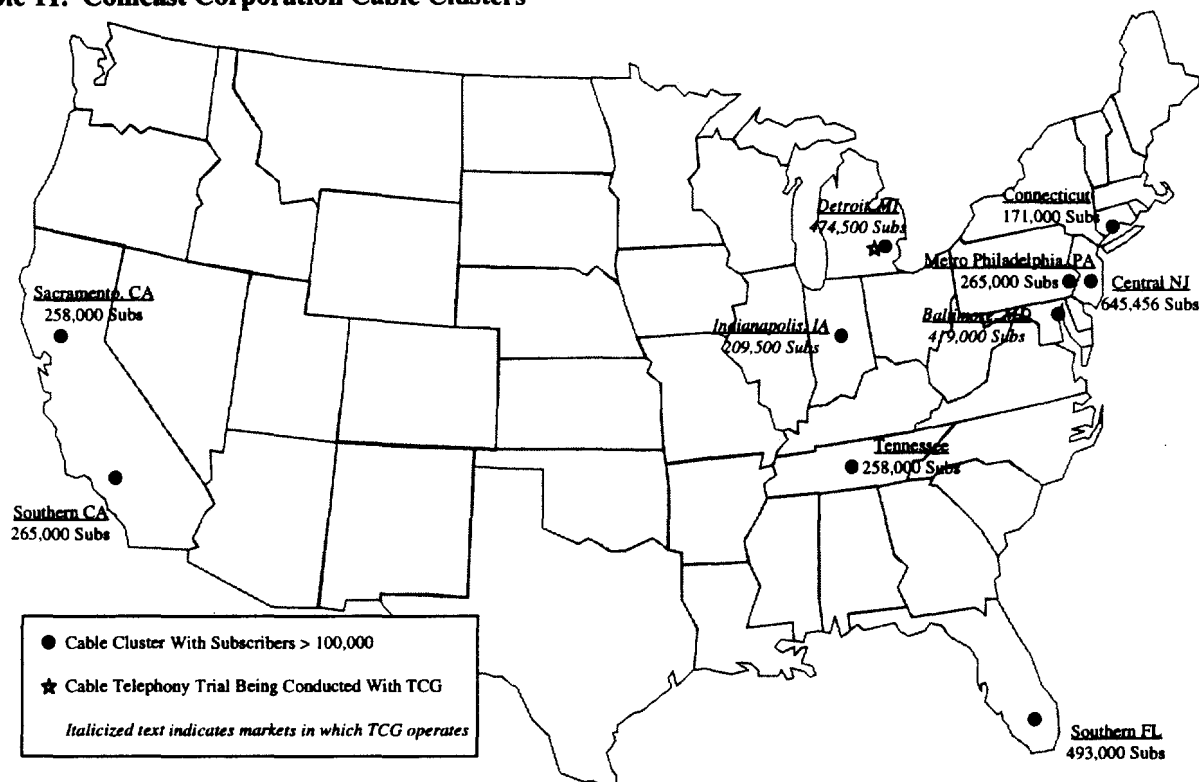
years. If AT&T is able to attain this lofty goal and distributes its traffic among 3 carriers in each market, it would clearly be a home run for all the players involved. Although we do expect AT&T to build facilities on a limited basis in major markets like Chicago, Los Angeles and New York, we believe it is highly unlikely that the company will deploy ubiquitous facilities nationwide. This leaves the door open for TCG to provide local connectivity and dialtone services to AT&T and the other long distance carriers. In other words, we expect AT&T and the other long distance carriers, both big and small, to sell their own branded local products using TCG's switch and fiber infrastructure. This will be in addition to TCG's own branded product, which can be sold over the same network.

Biz-Tel Communications, Inc. A critical strategic addition to TCG's already unmatched portfolio of assets is its 49.9% stake in BizTel Communications, Inc. TCG has the option to acquire up to 74.9% of the company after BizTel builds out its links over an 18-month time frame, or sooner if it is able to get a waiver to acquire a majority stake in an unbuilt license. BizTel is one of the top three holders of 38 GHz licenses in the U.S. with 156 licenses that cover geographic areas with a total of population of 175 million. The company has licenses in 80 of the top 100 markets and has full overlap with TCG's existing market footprint. In addition to its existing license portfolio, BizTel has applications pending for an additional 102 licenses. This license footprint creates substantial opportunities for both companies, as we expect that BizTel will be able to provide TCG with the critical broadband last mile links to end users and carriers alike. We believe that BizTel expands TCG's addressable revenue opportunity on a geographic basis by at least \$5 billion in the year 2005 (i.e., incremental 38 GHz markets where TCG does not have a fiber footprint), and significantly expands its market and margin opportunity in the markets where it does have fiber. With the FCC expected to resolve the allocation procedure for the allocation of the frozen 38 GHz licenses and the balance of the spectrum in the next quarter, we believe that further good news could be on the horizon. If the FCC decides to go to an auction process for the balance of the spectrum, it will monetize the value of BizTel's substantial license footprint. If the FCC continues to grant spectrum for free, BizTel's license footprint will be significantly expanded free of charge. Either path the FCC takes appears to be a winning situation for TCG and its shareholders.

International Reach Via COLT. On the international front, TCG has a strategic relationship with City Of London Telecommunications. COLT is an international CLEC with an operational network in London and networks under development in key financial centers in continental Europe. COLT already operates a 110-kilometer network in London, with 400 on-net buildings, where the company has signed up carriers like AT&T, Telstra, Sprint, British Telecom, Mercury, Energis, Esprit, ACC and Telia. COLT's UK footprint is extended through a strategic agreement with ScottishTelecom, the CLEC enterprise of ScottishPower, which enables it to link its London network with Edinburgh and Glasgow. In continental Europe, the company has recently been granted a license to build networks in Frankfurt and Madrid and will likely gain approval to build in other markets, as MFS Communications has done in the past. TCG's relationship with COLT is essentially a cross-referral system whereby TCG will refer its U.S. customers with European operations to COLT, while COLT will refer its European customers with U.S. operations to TCG. Although TCG may not be directly capitalizing on the opportunity that exists to bring a competitive choice to European telecommunications, the company will clearly have the means to satisfy a customer's foreign telecommunications needs in some capacity. The net impact of the COLT relationship is that it TCG is unlikely to lose a customer to a competitor simply because it does not have a European footprint.

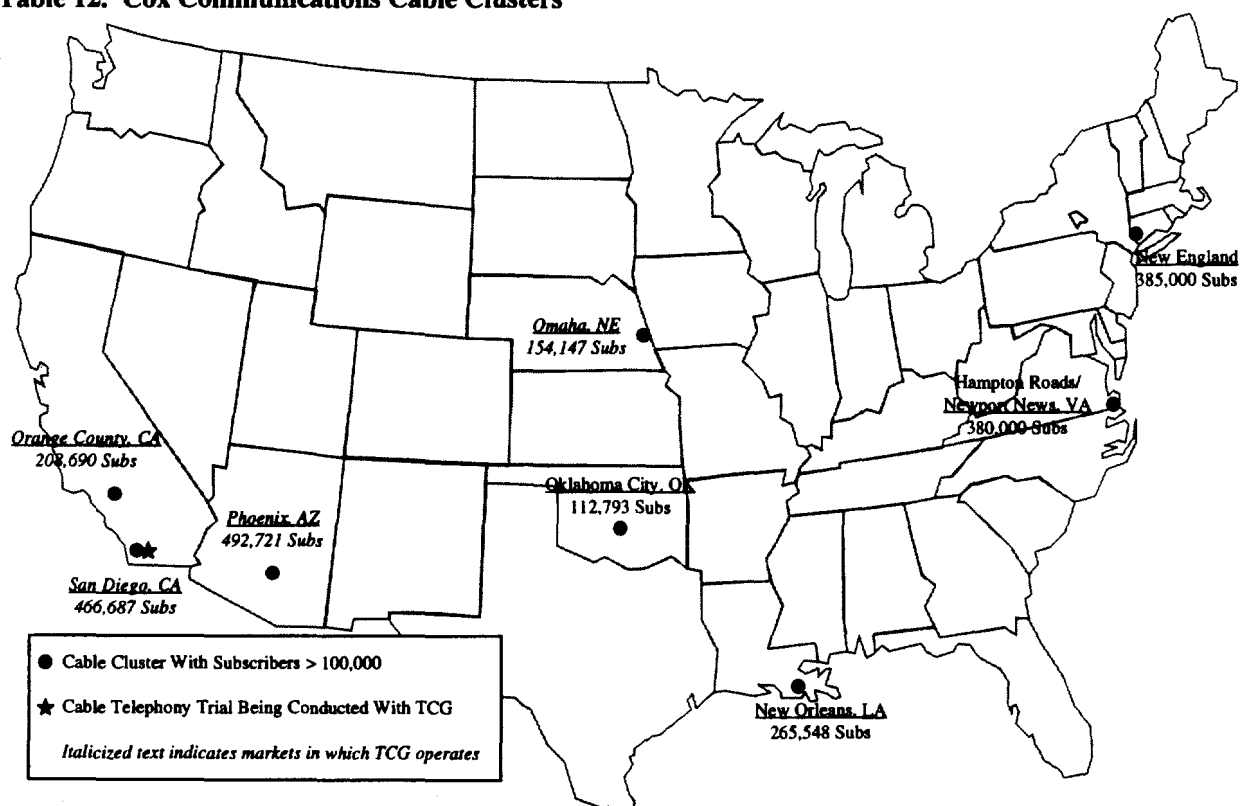


Table 11. Comcast Corporation Cable Clusters



Comcast's major cable clusters cover 10 metropolitan areas with 2.9 million subscribers in 9 states.

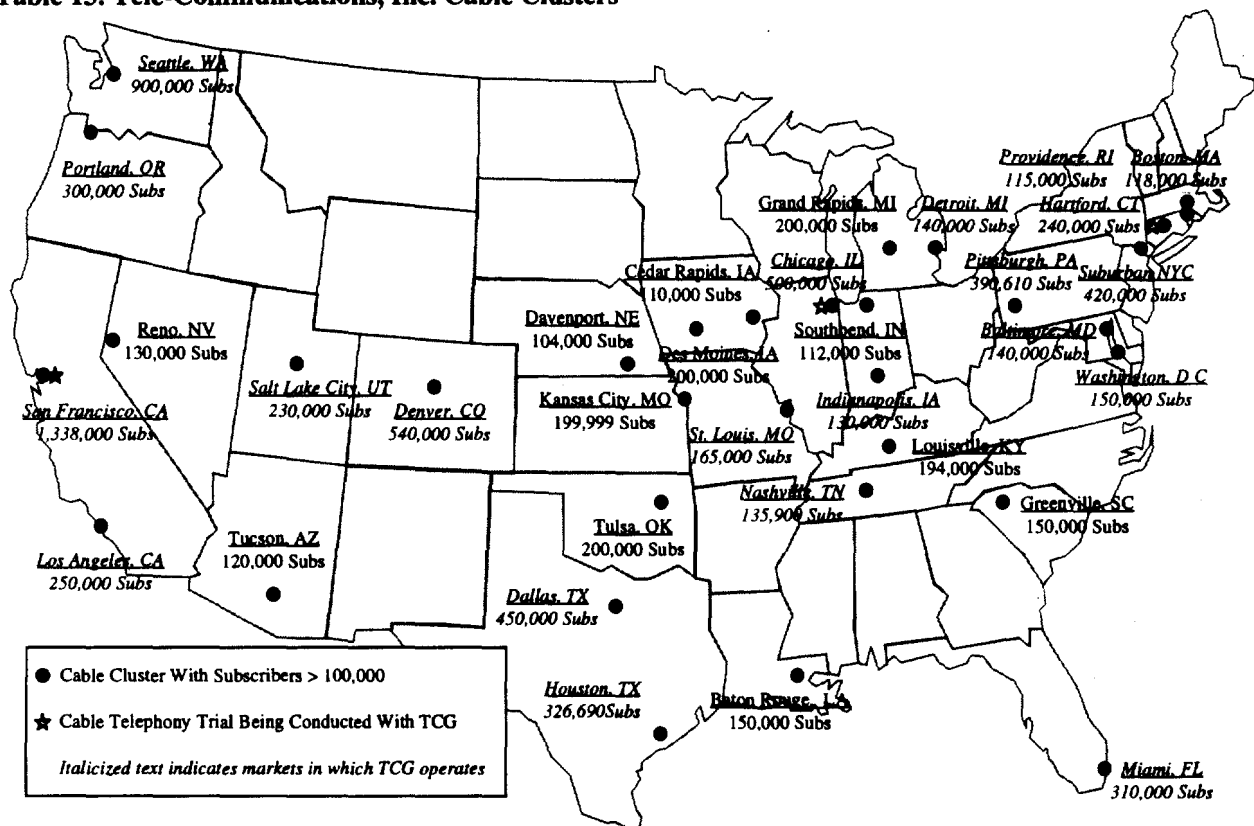
Table 12. Cox Communications Cable Clusters



Cox's major cable clusters cover 8 metropolitan areas with 2.5 million subscribers in 7 states.

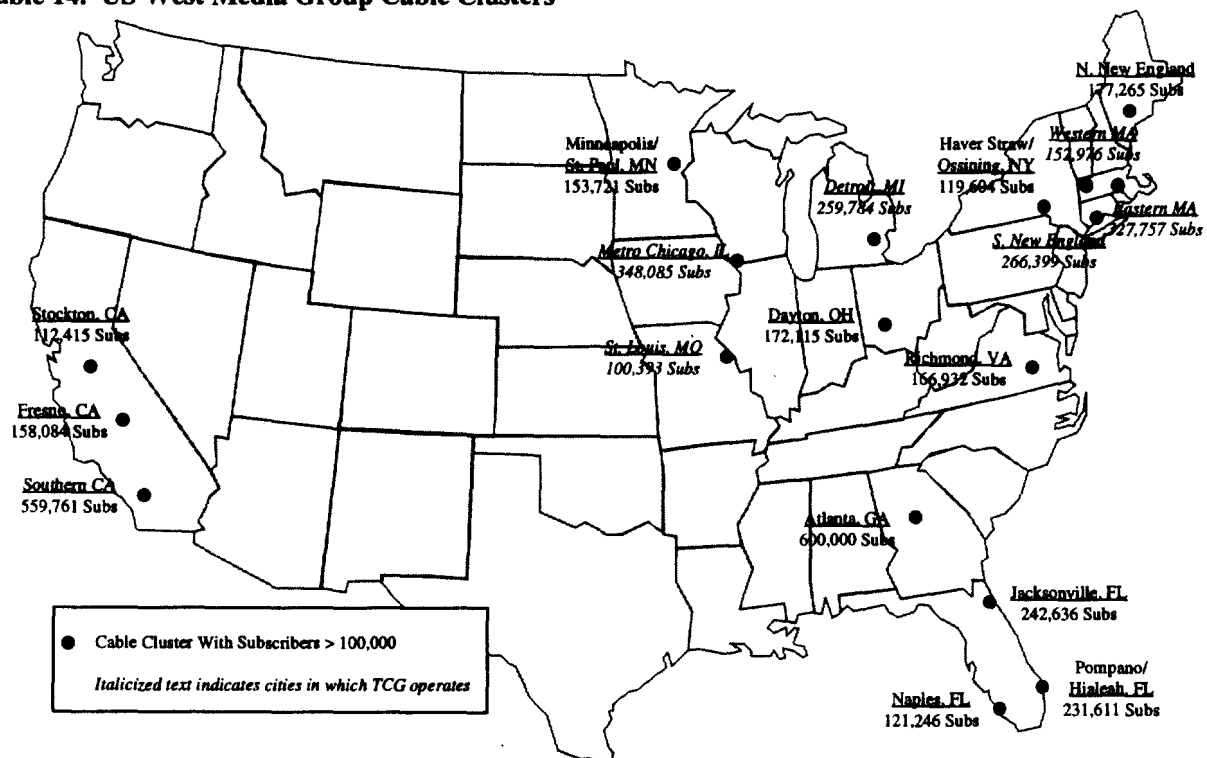


Table 13. Tele-Communications, Inc. Cable Clusters



TCI's major cable clusters cover 33 metropolitan areas with 7.8 million subscribers in 28 states.

Table 14. US West Media Group Cable Clusters



US West Media Group's major clusters cover 18 metropolitan areas with 4.3 million subscribers in 13 states.



VII. TCG'S CUSTOMER BASE

TCG Has A Broad Array Of Customers. Having discussed TCG's opportunities for growth, it is worth identifying those customer segments that are likely to generate significant revenue for TCG. As evidenced by the list below, TCG's potential customer base includes a broad array of players ranging from end users to carriers. Although TCG's customer base largely consists of end users today, we believe that TCG's carrier customers have the potential to contribute a large amount of its growth, as each carrier segment has laid out plans for aggressive entry into the local market and TCG is well positioned with the mission-critical broadband local infrastructure which can connect the carriers to their customers.

End Users. Although the carrier's carrier strategy is an excellent means of market penetration, TCG primarily targets end users with a broad array of services, including voice telephony, data transmission, video conferencing, dedicated lines for Internet access, and other enhanced services. As a result of its business customer focus, end users make up more than 66% of TCG's revenue today versus only 33% five years ago. As we mentioned previously, we anticipate that TCG's geographic expansion, coupled with its expansion into small to medium-sized business customers, will significantly expand its end user market opportunity.

Long Distance Carriers. First-tier supercarriers like AT&T, MCI and Sprint have all announced aggressive plans for local loop entry via facilities-based and resale-based platforms, while second- and third-tier carriers will supplement their long distance offerings to small-to-medium-size business customers by reselling switched local services from CLECs and ILECs. TCG historically offered IXCs special access transport from POP to POP, POP to central office, and CO to customer premises, but it is now able to provide intraLATA toll services, switched local services, switched access and a broad variety of other services to its long distance carrier customers.

CATV Operators. Many cable MSOs have leveraged their broadband fiber optic or coaxial backbone in order to provide competitive access services and are upgrading their networks with the intention of providing telephony over cable plant. TCG is an excellent source of telephony expertise and switching capacity that can enable CATV operators to accelerate market penetration. Teleport is providing the switching and dialtone for cable-telephony trials in Arlington Heights, IL, with TCI; West Hartford, CT with TCI; in Detroit, MI, with Comcast; in Castro Valley, CA with Viacom Cable/TCI; and in San Diego with Cox.

Out-Of-Region RBOCs & GTE. Progressive RBOCs and other ILECs are launching out-of-region competitive local telephony ventures in order to expand their U.S. footprints, compensate for threats to in-region revenue streams, and serve the out-of-region needs of their major regional customers. These out-of-region players are likely to tap any available assets in order to cost-effectively facilitate the local capacity needs. RBOC entry into long distance will also establish five new carriers that will require access services outside their home regions.

Cellular-PCS Operators. Domestic cellular-PCS operators will be seeking reliable and cost-effective ways to connect the estimated 100,000 PCS cell sites that will be installed nationwide over the next decade. TCG is ideally positioned to serve this community with 38 GHz licenses via BizTel and a high-capacity fiber backbone and switching infrastructure, which could provide wireless operators with all of their interconnection needs.

Integrated Resellers. Carriers adopting a pure integrated resale strategy (e.g., ACC, US ONE) can be leveraged as the equivalent of a nationwide sales force. Shared tenant service providers (e.g., Shared Technologies), capacity aggregators, and pure resellers will be attracted to the access providers that can provide them with the broadest coverage and building access. Residential customers, such as those of a shared tenant service provider, stimulate network usage with calls placed during the evening, when TCG's network would otherwise be dormant.

Internet Service Providers. Internet Service Providers (ISPs) are experiencing significant demand for their services but are often confounded by the ILECs' inability to provide dedicated T-1 circuits in a timely and economically viable manner. ISPs also need to interconnect with the public switched network and are restrained by high collocation costs and by the lack of cooperation on the part of the ILECs. TCG can deploy T-1s rapidly through its fiber facilities or through the 38 GHz licenses of BizTel and provide interconnection with the ILECs.



VIII. TCG'S SERVICE OFFERINGS

TCG Really Is The Other Local Phone Company. At the heart of TCG's success and its strong potential for future growth is its high-quality, innovative and competitively priced service offering to customers. TCG provides highly reliable services over SONET-based fiber optic networks with a bit error rate of 10^{-13} , which means that its customers experience less than one errored bit out of every 100 million bits sent. TCG's network management center monitors all customer circuits 24 hours a day, 7 days a week, in order to detect and correct problems before they become serious and ensure rapid response time when problems do occur. TCG tailors its service offerings to the specifications of its customers and even provides billing information on disk in order to facilitate internal billing needs. Although TCG does not invent technology, it does have a state-of-the-art product and service development lab which enables it to leverage and improve on the existing technology available in the marketplace. This has allowed TCG to push the envelope with advances such as video over ATM and a broad variety of other value-added applications for its customers. TCG's services are essentially technology and platform neutral, as the company can provide its offerings over fiber, 38 GHz, or leased lines from the ILECs.

Private Line Services. TCG provides dedicated access and private line services to end users and carriers alike over its fully redundant fiber network and over wireless and leased facilities. TCG's *OmniLink* services are designed to provide business customers and telecommunications carriers alike with dedicated connectivity between multiple locations. TCG can provide *OmniLink* services at capacities ranging from DS-3 to OC-3. This service offering can enable business customers to connect private corporate networks on a point-to-point basis between two offices or between a customer's premises and the central switching office. For telecommunications carriers, TCG can offer this point-to-point service, providing carriers with connections from POP to POP, POP to Tandem, Tandem to Central Office, or Central Office to customer premises. TCG also offers *OmniLink DS-1* services at 1.544 megabits per second (Mbps) that can be divided into 24 DS-0 channels. The company also offers European standard DS-1E services at speeds of 2.048 Mbps in order to facilitate connectivity with European countries. *OmniLink SONET* Services provide mission-critical communications links at capacities ranging from OC-3 to OC-48. We expect that demand for TCG's dedicated services will continue to be strong, driven by the needs of large corporate customers and telecommunications carriers, which are experiencing a significant increase in the demand for bandwidth.

Switched Services. TCG provides a full range of standard and enhanced switched local services, including trunk lines for private branch exchanges (PBXs) and feature-rich centrex services. For customers with their own PBXs, TCG's *TeleXpress* Service provides direct inward dialing (DID) and direct outward dialing (DOD) in addition to local calling services and dedicated access to the long distance carrier of choice. For businesses not interested in making a capital investment in their own PBX switch, TCG offers *Centrex Service*, which delivers all of the features typically provided by a PBX from TCG's own central office switch. This service offers advantages to businesses in that they can add lines and capacity as their business grows and do not need to buy or maintain expensive switching equipment and the associated expertise. We expect that switched services will be one of TCG's most significant growth opportunities, since switched services comprise the vast majority of the local market. Given that TCG only offers switched services in 50% of its markets, and only on a limited basis in those markets, TCG clearly has a significant opportunity to expand its penetration of the switched service market. In addition to its offerings to end users and carriers, TCG also provides public pay phone services.

High-Speed Data Services. TCG provides its business customers with high-speed data services over an ATM-based SONET network, which can enable businesses to transmit data and video between and among multiple locations. TCG can provide its customers with LAN/WAN connectivity, establish data communications to facilitate just-in-time inventory management, link financial service corporations with trading exchanges and data sources, connect with enterprise networks, etc. Due to its robust network capacity, TCG is able to offer its customers incremental bandwidth on demand in order to accommodate the bursty nature of data communications. We anticipate that data services will be one of the principal growth drivers for TCG, as the overall demand for data services is one of the largest sources of growth for the entire industry today. With its robust broadband network and technological expertise, TCG is well positioned to capture a significant portion of the growth in this industry segment.



IX. TCG'S COMPETITIVE ENVIRONMENT

TCG Vs. The ILECs. Given that the incumbent local exchange carriers (ILECs) have 99.5% market share today, we believe that any competitive issues should center around the CLEC vs. the ILEC. That said, we believe that TCG is highly capable of competing with the ILECs on the basis of its high-quality service, innovative product offerings and competitive pricing. In terms of strategic advantages over the ILECs, being a national company is a significant advantage when it comes to dealing with national accounts with a large geographic footprint. By virtue of its nationwide presence, TCG can offer its customers service in multiple areas with a unified product, pricing and service offering. This simplifies its customers' lives, since they can have a single point of contact for their local telephone needs nationwide rather than dealing with each individual telco. TCG's innovative services include electronic bonding with its customers and suppliers in order to facilitate the provisioning of service, orders, repairs, etc. In terms of reliability, TCG can win versus the ILECs: its networks offer reliability of 99.999% versus 99.99% for the ILECs. TCG will give 1 month of free service if a customer has 1 second of downtime on a totally on-net circuit. TCG's mean time to repair is 1.5 hours, whereas the RBOC average is 4 hours. In terms of price, TCG typically prices itself about 15% lower than the ILEC. To expand on its value proposition, TCG originated the "Pay For What You Say" plan, which has a 30-second minimum versus the ILECs' 3-minute minimum, and bills in increments of 6 seconds versus full minutes for the ILECs. Even if some of the RBOCs are allowed price flexibility to reduce prices in some areas, they have a long history of raising them somewhere else in order to make the reduction revenue neutral. In this case any impact on TCG as a full service CLEC will likely be minimal because it will be able to raise their prices elsewhere in line with the ILECs.

TCG Vs. Other CAPs/CLECs. A list of "CLECs" in a large market like New York or Los Angeles could potentially include more than ten names, leading some to wonder whether these markets can sustain this level of competition. It is important for investors to realize that many of the companies listed as competitors are complementary to TCG (i.e., WinStar, which TCG uses to extend its reach in Boston) and many are resellers (i.e., ACC Corp., US ONE, USN Communications) or shared tenant service providers (i.e., RCN, Shared Technologies Fairchild), which will typically leverage the networks of the facilities-based CLECs rather than actually competing with them. In terms of legitimate competition, TCG has many attributes which enable it to stand above its CLEC peers. As a result of its CATV MSO relationships, TCG can build faster and cheaper than any other CLEC in the market today. TCG has significantly more miles of fiber in each market than any of its peers, allowing it to provide intraLATA toll services and other services that many of its peers can not. TCG is also uniquely qualified as a nationwide CLEC because it can offer unified pricing and service plans for its customers despite the geographic diversity of their operations. TCG has also invested heavily in order to beef up its back-office systems in order to support new and innovative products, services, and billing platforms. On the carrier's carrier side, TCG is likely to be more attractive to an IXC than a name like MFS because it does not compete in the long distance market. Having said all that, we still do not believe that we are at a point where it is appropriate to be concerned about CLEC versus CLEC competition, as the ILECs still dominate 99.5% of the market.

Implications Of Price-Based Competition. With the onset of competition in the local market, many on the Street have speculated over the likelihood and implications of price-based competition. In terms of likelihood, we believe that it is a safe bet to say that prices in the local market will come down and that today's rich 45% cash flow margins enjoyed by the ILECs will be trimmed down over the next decade. In recognition of this eventuality, we have targeted 30%-35% EBITDA margins for the CLECs in the year 2005. In the context of declining prices, it is important to note that we believe there will be a strong stimulus in demand associated with any decline in pricing. To test the elasticity of demand for telecom services in a declining price environment, we performed a simple linear regression analysis based on the historical experience of the long distance industry, a healthy industry that has significantly grown profits while experiencing increased competition, declining prices and increased demand. Between 1988 and 1995, long distance prices declined by approximately 29% while minute volume increased 111%. The clear conclusion that we drew from this exercise is that demand for telecommunications services is strongly correlated with pricing. Our demand regression had an R Squared of 0.90, demonstrating a high correlation between declining prices and increased use of long distance services. The net effect of this exercise was to give us a high degree of comfort that any significant decline in local service pricing could likely be offset by a stimulus in demand.



X. TCG'S REGULATORY ENVIRONMENT

Federal Legislation Was A Watershed Event For TCG. The passage of federal telecommunications in concert with developments at the state and local levels has effectively laid the groundwork for all segments of the local telecommunications market to be opened to competition. Federal legislation has also given the incumbent local exchange carriers (ILECs) an incentive to cooperate with their competitors by withholding ILEC entry into the long distance market until such a point that the local market is competitive. Moreover, the existing long distance carriers (e.g., AT&T, MCI, Sprint, etc.) have an economic and strategic incentive to use the CLECs in order to take revenue away from the ILECs that will ultimately be competing in the long distance business. We believe that given TCG's historic success in a legislatively hostile environment, the company will flourish under a favorable legislative environment with increased customer awareness of a competitive choice in the marketplace.

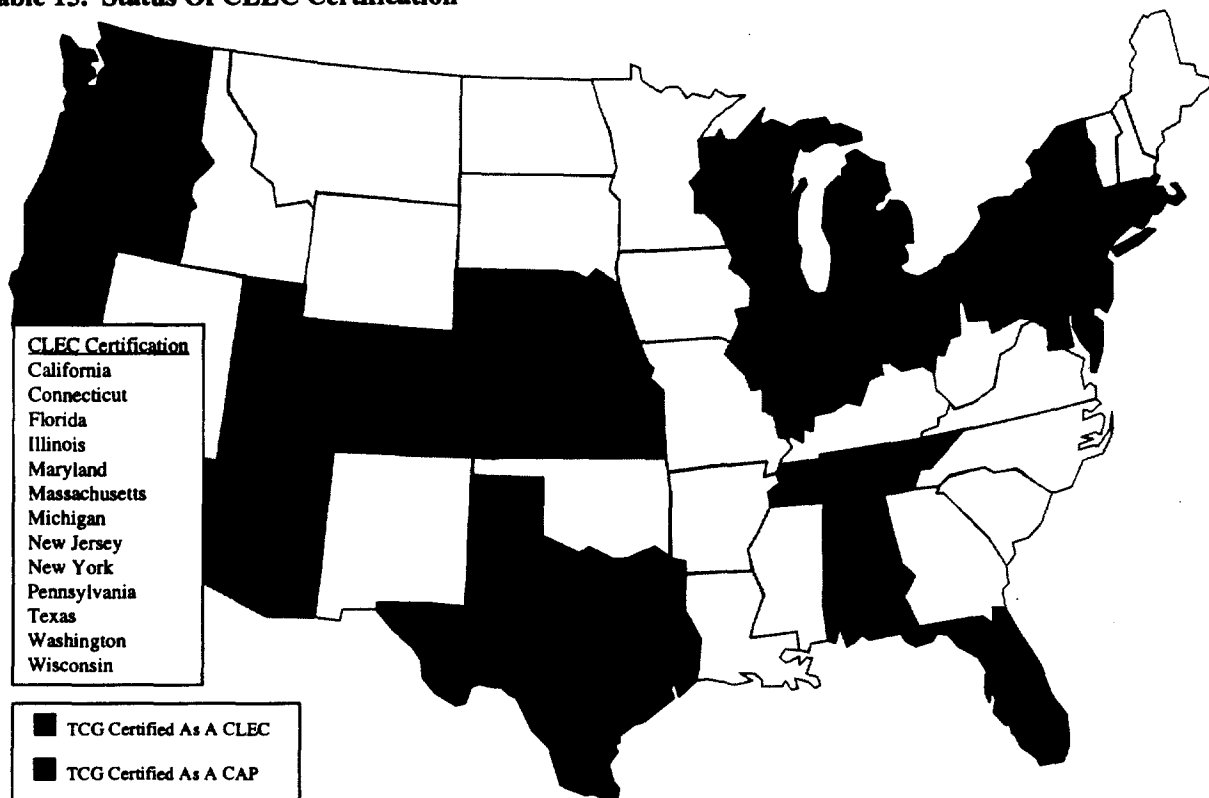
Advantages Of Being A CLEC. The implementation of federal legislation offers significant advantages to TCG in terms of improving its cost structure and expanding its revenue opportunity. On the cost side, the implementation of cost-based interconnection and associated structural issues should significantly benefit the company's operating costs: NXX codes are cheaper (they used to cost \$10,000/month), interconnection is cheaper, and call completion is cheaper, all of which translates into higher margin potential for TCG. Beyond mere cost savings, the implementation of legislation significantly expands TCG market opportunity. While the company was once limited to special access service and switched services in a select few markets, federal legislation essentially opened all aspects of the local market. TCG can now tap new segments and target end users with complete local service offerings. TCG is now able to derive revenue from call competition from the ILECs, which historically did not pay TCG when their customers terminated a call on TCG's network.

FCC Rulemaking Confirms Legislative Intent. The August 1, 1996, FCC rulemaking on the Telecom Act of 1996 reinforced our belief that TCG and its peers are among the best positioned companies to capitalize on the competitive local opportunity. With the establishment of the specifics surrounding cost-based interconnection and the availability of unbundled loops, there is a clear indication that the competitive local service opportunity is valid. Among the highlights of the August 1 order was the fact that competitors will have access to all unbundled elements of the ILEC networks. This right will enable TCG to reach off-net customers by leveraging the unbundled loops of the ILEC and utilizing its own switching and transport capacity. Another clear benefit of this rulemaking is the determination that charges for transport and termination of traffic between competing carriers will be fair and reciprocal. Finally, the August 1 ruling validated the switch deployment strategy of TCG by economically rewarding carriers that provide their own switching and lease the other unbundled elements from the ILECs. Although access charge reform and universal service are two key issues that will be resolved over the next 12 months, we strongly believe that the pro-competitive spirit of the FCC will continue to work in favor of the facilities-based CLECs.

TCG's Regulatory Status. TCG has been granted CLEC status in 13 states and has negotiated interconnection agreements with 5 ILECs in 32 states. These interconnection agreements enable TCG to originate and terminate traffic over the networks of the incumbent LECs, effectively expanding TCG's reach to include all potential customers in the local market. Additionally, these interconnection agreements typically enable TCG to receive compensation for ILEC calls terminated over its network, which was not historically the case. TCG has recently filed for arbitration with 22 state public utility commissions (PUCs) in order to resolve differences in interconnection agreements with Ameritech, Bell Atlantic, GTE, NYNEX, SBC Communications, and US West. We are confident that these agreements will ultimately be forged in the spirit of the Telecom Act of 1996 and in line with the positive agreements TCG has signed with Bell South and Pacific Telesis since legislation was passed on February 6, 1996. In the face of the hype surrounding the passage of federal telecommunications legislation, it is important to recognize that all of the benefits will not immediately accrue to the CLECs. The implementation of the Act is a long process involving negotiations with state and federal regulatory bodies, in addition to the ILECs themselves. We initially expect TCG to benefit from the expanded market opportunity, which will enable it to target a significantly larger market, with the cost benefits accruing over the next 12-18 months. Maps displaying the specific details of the status of TCG's regulatory status can be found on Tables 15 and 16 on page 26.

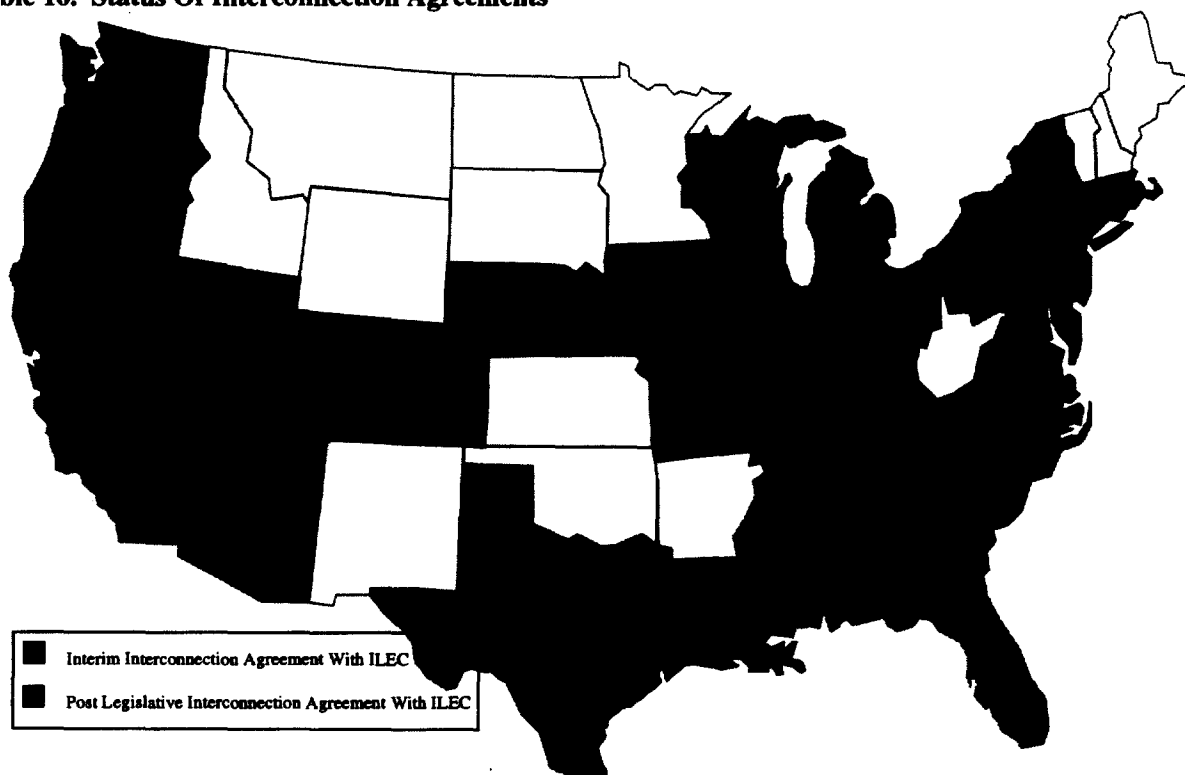


Table 15. Status Of CLEC Certification



TCG has been certified as a competitive LEC in 13 states, with an additional 10 applications pending.

Table 16. Status Of Interconnection Agreements



TCG has interconnection agreements with 6 ILECs in 28 states, with additional agreements pending.



XI. DISCUSSION OF FINANCIAL PROJECTIONS

Strong Revenue Growth Projected. We are assuming that TCG will be able to penetrate 6.6% of its \$55 billion addressable market in the year 2005, yielding revenue of \$3.6 billion. Our assumptions for TCG's market opportunity are outlined on pages 32-35, which list our market revenue projections for the top 150 metropolitan statistical areas, which we believe to be the market that TCG can serve with its fiber networks and BizTel's 38 GHz licenses. We estimate the top 150 MSAs will contain approximately \$91 billion in total local revenue in the year 2005, equal to 63% of the total \$145 billion local market. In this environment, we believe that the market addressable to TCG's fiber facilities is comprised of the \$50.4 billion business and residential multi-dwelling unit market with an incremental \$4.6 billion in market opportunity contributed by BizTel's footprint in markets which are not served by fiber. Given TCG's historical results in New York City and its other markets, we believe that our penetration assumptions are conservative and leave significant room for upside over a ten-year time horizon. It is worth noting that our revenue projections assume a base-case scenario with traffic carried primarily on TCG's own facilities versus lines leased from the ILECs. There exists the potential for large agreements with long distance carriers which would significantly increase TCG's revenue opportunity and create a shift in carriage mix toward a larger percentage of off-net traffic. Although the off-net traffic would be carried at potentially lower margins than the on-net traffic, it would still create upside to our present valuation.

On-Net Traffic Drives Healthy Margins. Evidence from the New York market implies that TCG can reach margins of nearly 45% in a competitive market scenario (i.e., one in which NYNEX has limited price flexibility and multiple competitors exist). That said, we are comfortable with our year 2005E EBITDA margin target of 35%, as we feel that it allows for a significant amount of price-based competition in addition to a revenue mix skewed more toward off-net traffic. Although we do believe that TCG may have the opportunity to exceed our margin targets as a result of its facilities-based strategy and more attractive central office interconnection, our 35% target reflects a degree of conservatism we feel is appropriate when forecasting ten years into the future. However, we believe that TCG's robust interconnections with end offices rather than tandem offices improve its operating expenses as a percentage of revenue versus some of its peers which will rely significantly on unbundled loops. Moreover, BizTel's 38 GHz links will help margins in the long run, as TCG will have a facilities-based alternative to ILEC unbundled loops. TCG's cost-effective network deployment also leads to lower operating expenses and lower expenses associated with depreciation of capitalized expenses below the EBITDA line.

Positive EBITDA Should Keep On Growing. TCG is EBITDA positive today, and we expect it to remain EBITDA positive going forward. Although the company will still be incurring negative EBITDA from its start-up networks, the majority of TCG's largest networks were started in the 1992/1993/1994 time frame. If one assumes that these networks will turn cash flow positive by the sixth or seventh year, consistent with TCG's historical experience, it implies that TCG will see a steep ramp in positive cash flow during the 1998/1999 time frame. We are forecasting a compound annual EBITDA growth rate of approximately 66% over the next decade and anticipate that TCG will continue to generate strong EBITDA growth beyond the year 2005. With regard to the potential impact of new networks on the company as a whole, it is important to note that the company's new networks are relatively small in comparison to those that it has already established. Consequently, the weighted average EBITDA should remain positive due to the large size of the networks that are in the process of turning EBITDA positive. We expect TCG to post EBITDA margins of 21% in the year 2000 and 35% by the year 2005.

Look For Efficient Use Of Capital To Continue. As a result of its strategic cable relationships, TCG has been able to maximize the efficiency of each capital dollar. We expect that this efficiency should be maintained going forward as TCG benefits from its cable relationships, BizTel, and a larger percentage of success-based capital expenditures. To illustrate the efficiency with which TCG has deployed its networks, consider that TCG has spent an average of \$180,500 per network route mile versus MFS, which has spent an average of \$469,700 per route mile. Bear in mind that TCG has also deployed 21 central office switches and 33 ATM switches, which are included in this number. Going forward, capital expenditures will be largely success driven as incremental expenses will be more heavily weighted towards hooking up customers versus building backbone networks, and BizTel should help ensure that capex are largely success-based as it signs up customers.



XII. VALUATION ANALYSIS

Discounted Cash Flow Yields \$28 Price Target. We estimate a 12-18 month equity market value for TCG of \$4.5 billion based on our discounted cash flow analysis. We assume that TCG will post revenue of \$3.6 billion in the year 2005 with EBITDA margins of 35% and corresponding EBITDA of \$1.3 billion. Understanding that choosing a specific discount rate is always difficult and controversial, we prefer to use a range of discount rates, reflective of both current market valuations and our cost of capital assumptions. For the purpose of our valuation we used a range from 10.0x to 12.0x, reflecting a midpoint between the multiples that the cable and cellular industries currently receive. The midpoint of this exercise was an equity value of \$4.5 billion, or \$28.00 per share, implying upside of nearly 50% from these levels. We believe that TCG will trade toward our \$28 target price over the next 12 to 18 months as the company delivers strong and consistent financial and operational performance coupled with the potential for significant agreements with large carriers. We also believe that our revenue and margin assumptions are conservative for the terminal year.

Table 17. TCG Equity Valuation Matrix (\$ in millions except per share amounts)

		Discount rate		
		12.0%	13.0%	14.0%
Terminal EBITDA multiple	10.0	4,391.2	3,995.2	3,631.0
	11.0	4,876.2	4,445.2	4,048.7
	12.0	5,361.2	4,895.1	4,466.4
Mean of area	\$4,456.7	Median of area		\$4,445.2
Equity value per share	\$27.91	Equity value per share		\$27.84

Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

Contribution Of Biz-Tel. While we are reluctant to separate BizTel from TCG for the purpose of valuation, it is worth noting that on a per-pop basis, TCG's 49.9% stake is worth approximately \$262 million, or \$1.65 per TCG share (using market values currently assigned to WinStar). That said, we also recognize that BizTel's value as a component of TCG far exceeds its value as a stand-alone entity and do not consider that it is appropriate to separate the company from TCG for valuation purposes.

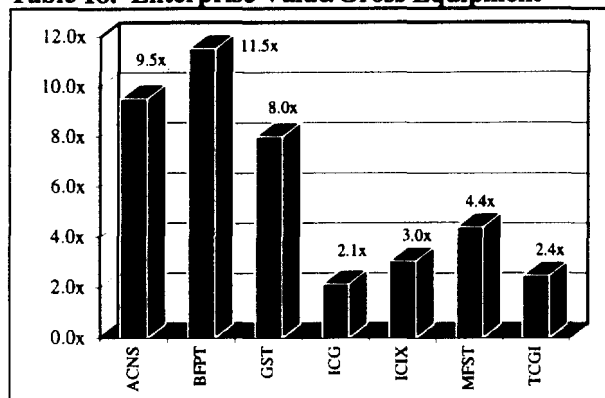
Comparable Companies Analysis. Although we believe discounted cash flow analysis is the best stand-alone method of determining the value of an enterprise, we find that it is useful to look at TCG in relation to its CLEC peer group in order to get a clear picture of its relative standing. The analyses we have performed, which are highlighted in the following text and tables, look at CLEC enterprise values relative to our forward revenue estimates, gross equipment in service, and a variety of other factors. In this context, we believe investors can broadly judge which companies are priced efficiently and which trade at a discount to their peers. The end result of these analyses is that TCG trades at a significant discount to its nearest comparable, MFS Communications, as well as the group norms. We believe that TCG should trade at least at parity with MFS given its market leadership, strong management, demonstrated access to capital, relatively low risk profile, and a strategic position that is unmatched by any of its peers. Although MFS has historically been the industry benchmark, we believe that TCG and MFS will ultimately both be viewed as the industry benchmarks.

Enterprise Value Vs. Gross Equipment Analysis. One of the key metrics for valuing CLECs is gross property, plant and equipment, which basically states the cost of deploying a company's networks. As evidenced by Table 18 on page 29, when the level of gross PP&E is compared to each company's enterprise value, the numbers are quite revealing. In this light, TCG trades at only 2.4x gross PP&E, versus 4.4x for MFS Communications and an industry average of 4.7x. That said, it is important to keep in mind that this ratio for the industry will be driven downward significantly over the next 24 months as the level of capital spending for each of these players will increase dramatically on the heels of numerous financings and accelerated expansion plans. In order to examine the potential impact of the aggressive capital deployment of the group, we subtracted the cash out of each company's enterprise value and credited its gross PP&E as if all their cash would go directly into the ground as PP&E. In this analysis, shown in Table 19 on page 29, TCG remains one of the most undervalued players at only



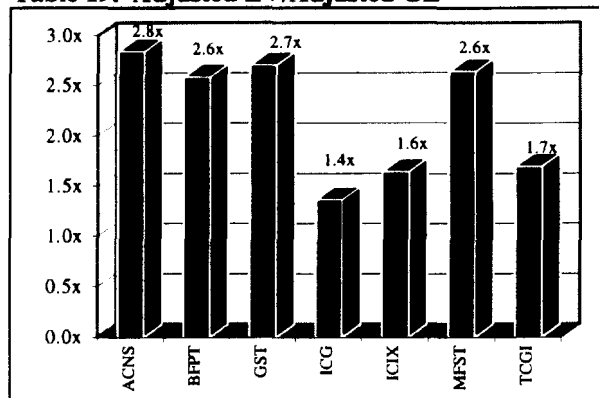
1.7x gross PP&E versus 2.6x for MFS and 2.2x for the group. In this comparison, we believe it is worth noting that the actual cost required to replace TCG's network is likely closer to the \$469,700-per-mile average of MFS than TCG's actual cost of \$180,500 per mile. In that context, it appears that TCG could actually be trading at close to parity with its replacement cost, which represents a tremendous discount to both the group and the S&P.

Table 18. Enterprise Value/Gross Equipment



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

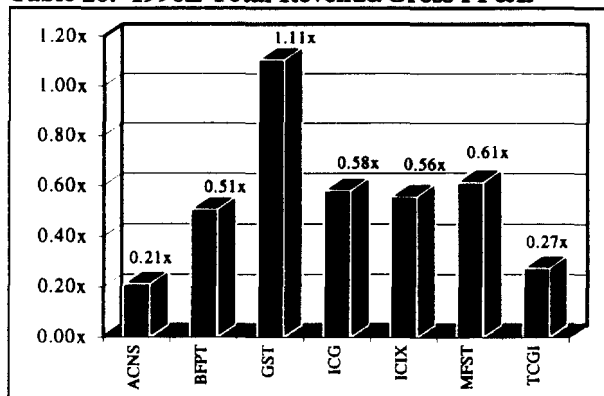
Table 19. Adjusted EV/Adjusted GE



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

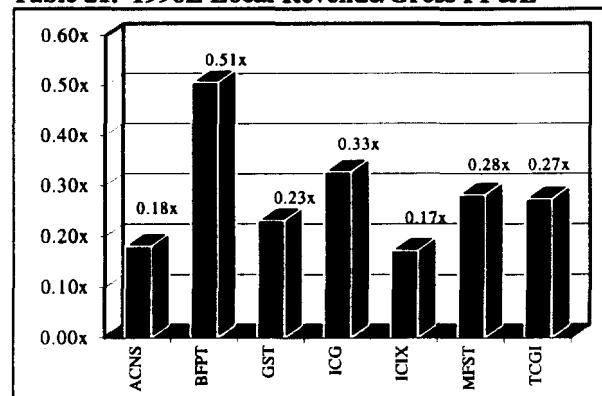
Revenue Versus Gross PP&E Analysis. When we examine the efficiency of the networks of the various players, the simplistic total revenue versus gross PP&E analysis shown in Table 20, below, is somewhat deceptive, as total revenue can often include various non-facilities-based revenue such as long distance or systems integration. In that context, TCG appears unattractive as it generates only \$0.27 in revenue per dollar of gross PP&E versus \$0.61 per dollar of gross PP&E for MFS Communications and \$1.11 per dollar of gross PP&E for GST Telecom. This analysis artificially handicaps TCG because it is a local service pure play, while carriers like MFS, GST Telecom, and Intermedia have a significant portion of their revenue originating from the long distance market. To make a more appropriate analysis, we look at 1996E local revenue versus gross PP&E in Table 21 in order to determine what amount of local revenue each player generates relative to its gross PP&E. In this context, TCG appears much more favorably, generating \$0.27 per \$1.00 of gross PP&E versus \$0.28 for MFS. In light of this analysis, we believe that the networks of TCG and its peers are largely underleveraged, and we expect the asset utilization ratio to improve for all the players as total revenue and local revenue should grow significantly faster than the growth rate of the assets in service.

Table 20. 1996E Total Revenue/Gross PP&E



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

Table 21. 1996E Local Revenue/Gross PP&E



Source: Deutsche Morgan Grenfell/C. J. Lawrence Inc.

Revenue Versus Enterprise Value Analysis. Projections of revenue and the individual components of each revenue stream coupled with a few balance sheet statistics allow for more interesting top-level comparisons. For the most simplistic comparison of enterprise value versus revenue seen in tables 22 and 23, seen on page 30,